A Year Of High Numbers

2010

A N N U A L R E P O R T
In the reporting year, Alfa-Bank earned record total net profit with Retail Bank also generating its record income. The Corporate-Investment Banking department also performed outstandingly, making the best of new opportunities generated by the successful integration of our corporate and investment businesses.

Mikhail Fridman
Chairman of the Supervisory Board
of Alfa Group Consortium
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<tbody>
<tr>
<td>countries</td>
<td>5</td>
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<tr>
<td>branches and offices</td>
<td>364</td>
</tr>
<tr>
<td>employees</td>
<td>15,349</td>
</tr>
<tr>
<td>corporate clients</td>
<td>40,000</td>
</tr>
<tr>
<td>retail clients</td>
<td>5.3 million</td>
</tr>
<tr>
<td>profit, USD million*</td>
<td>553</td>
</tr>
<tr>
<td>equity, USD million*</td>
<td>3,079</td>
</tr>
<tr>
<td>loan portfolio, USD million*</td>
<td>18,175</td>
</tr>
<tr>
<td>total assets, USD million*</td>
<td>28,478</td>
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* For the purposes of this report, the term "Alfa-Bank" is used to describe ABH Financial Limited and its subsidiaries.
Alfa-Bank Awards and Recognition in 2010

CUSTOMER EXPERIENCE INDEX
Alfa-Bank (Russia):
• Russian Banks Overcoming the Financial Storm (No. 1, 2009).
• Retail Banking Sector after the Financial Crisis (No. 1, 2010)

EUROWEEK MAGAZINE
Eurobond Placement of the Year (Alfa-Bank, Deutsche Bank, UBS)

RED APPLE XX MOSCOW INTERNATIONAL ADVERTISING AND MARKETING FESTIVAL
Grand Prix in the Best TV Advertisement category for Alfa-Bank’s advertising campaign,
Honesty Pays. In the Army

FINANCE MAGAZINE AWARDS:
Alfa-Bank (Russia): For the Boldest Policy During the Crisis (2009)

BUSINESS LEADERS OF RUSSIA (RUSSIAN MANAGERS ASSOCIATION):
Mikhail Fridman, Chairman of the Supervisory Board of Alfa Group Consortium;
Petr Aven, Alfa-Bank President (Russia)

RUSSIA’S TOP-1000 CHIEF EXECUTIVE OFFICERS (THIRD PLACE - COMMERCIAL BANKS):
Rushan Khvesyuk, Chairman of Alfa-Bank Executive Board (Russia)

RUSSIA’S TOP-1000 CHIEF FINANCIAL OFFICERS (FIRST PLACE - COMMERCIAL BANKS):
Andrew Baxter, Alfa-Bank Chief Financial Officer (Russia)

RUSSIA’S TOP-1000 IT DIRECTORS (FIRST PLACE - COMMERCIAL BANKS):
Sergei Mednov, Head of Information Technology, Alfa-Bank (Russia)

RUSSIA’S TOP-1000 GR DIRECTORS (FIRST PLACE - COMMERCIAL BANKS):
Vladimir Senin, Senior Vice-President, Head of Government Relations, Alfa-Bank (Russia)

RUSSIA’S TOP-1000 PR DIRECTORS (FIRST PLACE - COMMERCIAL BANKS):
Leonid Ignat, Director for Communications and PR, Alfa-Bank (Russia)

RUSSIA’S TOP-1000 MARKETING DIRECTORS (FIRST PLACE - COMMERCIAL BANKS):
Viktor Shkipin, Marketing Director (Russia)

RUSSIA’S TOP-1000 HR DIRECTORS (FIRST PLACE - COMMERCIAL BANKS):
Andrei Shibanov, Head of HR, Alfa-Bank (Russia)
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<td>in its priority business areas</td>
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<td>Board of Directors and Executive Board</td>
<td>8-9</td>
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<td>Message from the Chairman of the Executive Board</td>
<td>10-13</td>
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<td>Russian Economy and Banking Sector Overview</td>
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<td>Corporate-Investment Banking</td>
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<td>Retail Business</td>
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<td>Corporate Governance</td>
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<td>Our Partners</td>
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<td>Financial Statements</td>
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<td>64</td>
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We are happy to present Alfa-Bank’s annual report for the year 2010 that was, once again, marked by Alfa-Bank’s success as the biggest private bank in Russia. In the environment of Russia’s post-crisis economic revival. In the reporting year, Alfa-Bank earned record total net profit with Retail Bank also generating its record income. The Corporate-Investment Banking department also performed outstandingly, making the best of new opportunities generated by the successful integration of our corporate and investment businesses.

Despite aggravating competition on the financial market, Alfa-Bank is winning the fight for reliable and quality customers by parlaying its universal bank’s advantages: the wide product range, advanced technology and high business efficiency, flexibility of decision making and service excellence that allow Alfa-Bank to render high-quality service to our customers at any time and in any region across Russia. The continuously rising profits and the expanding customer base of Alfa-Bank of 2010 both reconfirm these advantages.

Not only has the number of retail clients increased, but also more companies are now using services of our Corporate-Investment Bank in central Russia and in other regions.

In 2010, the Corporate-Investment Banking division managed to extend its loan portfolio while also taking well-considered steps to improve its quality. These efforts have borne fruit with the share of delinquent loans decreasing by 4.5 times to 4.7%. At the same time, we continued our fruitful work to increase the share of risk-free income in Alfa-Bank’s total earnings. Relying on these achievements, it is possible to conclude that in any situation Alfa-Bank is able to make the right decision with a view to improving its position and reducing its risks.

In working with its corporate customers, Alfa-Bank employed a strategy aimed at developing long-term relationships with existing customers and generating an appealing offer for all categories of corporate clients from major enterprises to smaller businesses seeking quality finance or transaction banking services. Alfa-Bank’s competitive edge enables it to successfully serve any size companies in Moscow and in other major cities of Russia as well as everywhere across the country’s territory.

Alfa-Bank’s investment business in 2010 primarily consisted in working, quite successfully, on the debt market and winning leadership in this business segment and also in full-scale development of a high-quality offering for the derivatives market. In-depth understanding of client needs, including Alfa-Bank’s corporate customers, high expertise of our professional team, analytical and advisory services accompanied by our
state-of-the-art technological base enabling even highly sophisticated deals — were the key drivers of Alfa-Bank’s Investment Business success in 2010. Notably, in 2010, like in 2009, Alfa-Bank’s Investment Business demonstrated high efficiency and cost-effectiveness, generating robust income supplemented by continuous cost-cutting efforts.

As to Alfa-Bank’s retail business, 2010 was the most successful year for the segment in its entire history, with the Retail Bank earning record profits and dramatically expanding its customer base. Alfa-Bank positively succeeds in working with retail customers thanks to its value-added products, its presence in all Russian regions, service excellence and, of course, technological leadership. Evolution of E-Business to make up a new division within the Retail Bank added mobility to Alfa-Bank that is committed to developing in accord with customer needs, often forestalling them. Apart from the opportunity to offer our clients the novel services they obviously need, this new level of customer relationships allows Alfa-Bank to identify client wishes and tell about products that might interest them in the future.

Being a lucrative financial institution, Alfa-Bank understands that its mission is not only to offer banking services to customers, but also to support those in need of help.

For many years Alfa-Bank has been involved in charity sponsoring social and cultural initiatives. We are continuing our mutually beneficial relationships with the Life Line Charity supporting terminally ill children, with Alfa-Bank making corporate donations and its employees contributing voluntarily to the foundation by transferring part of their earnings under the Give as You Earn programme. Alfa-Bank shows concern about the future of our planet and is an active supporter of World Wildlife Fund initiatives giving also its customers an opportunity to contribute. Alfa-Bank continues arranging and sponsoring performances of Russian and international celebrities across Russia, holds exhibitions and drama festivals.

2010 was rich in awards given to Alfa-Bank for excellence of its operations. The one we are specifically proud of is the award Alfa-Bank won for a fourth year running as the overall leader of the Customer Experience Index 2010 prepared by Senteo and PricewaterhouseCoopers. This recognition is extremely meaningful for us because customer appreciation is the key objective of Alfa-Bank’s improvement efforts as part of which we are involved in continuous work to enhance the quality of our services and products. In the year 2011, Alfa-Bank will continue doing everything possible to lure more individuals and companies to select Alfa-Bank as their business partner, to earn investor confidence in Alfa-Bank’s bright future and customers’ reliance on Alfa-Bank as their most reliable financial partner.

Mikhail Fridman
Chairman of the Supervisory Board of Alfa Group Consortium

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

Johann Jonach
Chairman of the Board of Directors
Alfa-Bank subsidiaries and partners: geographic coverage

Alfa Capital Markets:
UK, London

Alforma Capital Markets Inc.:
USA, New-York

Amsterdam Trade Bank N.V.:
Netherlands, Amsterdam

Alfa Capital Holding Ltd.:
Cyprus, Nicosia

Pervouralsk
Raduzhny
Rostov-on-Don
Ryazan
Samara
Saratov
Severomorsk Serov
Sochi
St.Petersburg
Stavropol
Surgut
Syktyvkar
Tambov
Tolyatti
Tomsk
Tuapse
Tula
Tyumen
Ufa
Ulyanovsk
Uvat
Usolye-Sibirskoye
Vladimir
Vladivostok
Verhnya Pyshma
Vologda
Volgograd
Voronezh
Volzhskiy
Yakutsk
Yaroslavl
Yurga
Yuzhno-Sakhalinsk
Zelenogorsk
Zheleznogorsk

1 million customers
Use our Alfa-Click Internet Bank,
corporate customers.

RUB 463.6 bn
RUB 78 bn – retail loan portfolio
RUB 541.6 bn – corporate loan
portfolio

3.8% was the
annual growth rate of,
non-performing
loans.

100 thousand customers
were made through Alfa-Click
Internet Bank in 2010.

130 thousand transactions
were made through Alfa-Click
Internet Bank in 2010.

More than
2000 payees may
receive transfers from Alfa-Click users.

Alfa-Bank • Annual Report 2010 • Alfa-Bank Entities
Board of Directors and Executive Board

Ildar Karimov  
Member of the Board of Directors

Nikolay Kosov  
Member of the Board of Directors

Andrei Sokolov  
First Deputy Chairman of the Executive Board

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

Mikhail Fridman  
Member of the Board of Directors of Alfa-Bank

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

Alexander Lukanov  
Member of the Board of Directors

Andrei Kosogov  
Member of the Board of Directors

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

Alexander Knaster  
Member of the Board of Directors
2010 was a milestone year in Alfa-Bank’s corporate history since Alfa-Bank reported highest profits in its entire 20-year history.

This outstanding achievement proves that the strategy adopted by Alfa-Bank for all its service lines and operational levels was absolutely correct.
2010 is a milestone year in Alfa-Bank’s corporate history because Alfa-Bank reported record profits in its entire 20-year history with Alfa-Bank’s total profit amounting to USD 553 m and return on equity as high as 19.1%. These outstanding figures prove that the strategy adopted by Alfa-Bank for all its service lines and operational levels was absolutely correct. The growth dynamics of both Corporate-Investment and Retail Businesses that considerably outpaces the national economy’s recovery speed also suggests the same conclusion.

In 2010, the Russian economy left the critical phase of the crisis confidently behind and continued to recover. Even so, it was still too early to speak of a return to market stability. As competition on the banking service market increases, in particular because of pro-active approaches pursued by the banks relying on government support and the fight for quality clients between both these financial institutions and private banks, the environment is fairly favourable for rendering financial services, but only for banks enjoying weigthy competitive advantages. Alfa-Bank is without doubt the bank capable of making the best of these circumstances. Mobility and promptness of decision-making, a thrilling product offering, technology edge and invariably high quality of service and, of course, individual approach to each corporate and retail customer underpinned Alfa-Bank's outstanding performance in 2010.

Alfa-Bank’s total assets increased by 31.6% in the reporting year from USD 21.6 bn at the end of 2009 to USD 28.5 bn at the close of 2010. The number of our corporate customers overstepped 40,000 while the Retail Bank boosted its customer base 37% up to 5.3 m clients. Alfa-Bank is now the biggest private bank in Russia in terms of its aggregate assets, total equity and customer accounts.

In 2010, we continued our efforts to improve efficiency of Alfa-Bank’s operational model that, in particular, provides for transfer of the regional operational management functions from the central office to regional centres. One of the regional centres to take over management functions is Alfa-Bank's branch in Ulyanovsk. Similar centres will soon emerge in other Russian regions. These reorganisational measures will reinforce Alfa-Bank's image as the bank of first choice in the regions as well as in the central part of Russia.

Work with regional customers was a priority for both corporate and retail arms of Alfa-Bank for 2010. Alfa-Bank relied on its wide network of branches and its other advantages as the biggest private bank in Russia for engaging numerous new customers across the country and competing successfully on the local markets with both smaller regional banks and the major federal-level banks operating nation-wide.

The success of dealings with corporate customers largely depended on the synergy of on-going integration between our corporate and investment businesses. Corporate-Investment Bank was very successful in 2010, primarily owing to close cooperation between the two arms that allowed us making the best of the integration benefits. For instance, corporate customers are currently offered the entire package of investment banking services rendered by Alfa-Bank, while many investment customers also instruct us when they need a reliable corporate services partner. The joint efforts of corporate and investment divisions are also reflected in the dynamic growth of our corporate loan portfolio surpassing the mid-market, preserving at the same time high portfolio quality and targeting reliable and quality borrowers. Plus they also enable Alfa-Bank to build long-term customer relations by offering the entire range of services clients need or might need in future.
Another segment that benefited from the productive cooperation of the corporate and investment businesses is the bond market, on which Alfa-Bank operated so well in 2010 that it managed to get to successfully compete with the market leaders.

We also succeeded in further reducing the volume of non-performing loans and Alfa-Bank’s loan portfolio quality continued to improve in 2010 with the share of delinquent debt going down from 21.2% to 4.7% and of restructured debt from 11.5% to 5.7% in the total loan portfolio. Owing to these efforts, by the beginning of 2011, Alfa-Bank had a quality loan portfolio, one of the best among all Russian financial institutions.

In the reporting year, Alfa-Bank continued expanding its risk-free segment by focusing on settlement business development. Alfa-Bank processed 42% more customer payments in 2010 with more and more companies choosing us as their transaction bank.

As to investment products, along with productive operations on the debt markets, in 2010, Alfa-Bank was also committed to holistic development of its business associated with sophisticated financial products, such as derivatives. In the reporting year, we completed implementing unique new IT systems to enhance operation on the derivative instruments market, while the Investment Banking team was strengthened by new analysts with excellent expertise on the market and the products they will offer clients, including the current Corporate-Investment Banking customers. Our understanding of customer needs, professionalism of our expert team and also unparalleled technical capabilities for selling and supporting our products laid a foundation for Alfa-Bank successfully promoting sophisticated financial products on the Russian market.

Alfa-Bank’s retail business achievements in 2010 were as momentous as those of the Corporate-Investment Banking. For a start, in the reporting year, the Retail Bank reported record earnings in the entire history of Alfa-Bank’s services for retail customers with profit before tax amounting to USD 208 mln. Total retail customer base in terms of number of customers increased by 37% demonstrating the high confidence of individuals in Alfa-Bank as their financial partner. Alfa-Bank materially improved its positions in both corporate and personal lending becoming number five in Russia in terms of total loan portfolio. In addition, Alfa-Bank ranked number four among all Russian banks in 2010 in terms of total deposits attracted from individuals and retained its third position in terms of demand deposits, bested only by the two banks relying on government support, i.e., Sberbank and VTB24.

Achievements were also made in retail lending with Alfa-Bank becoming number two on the domestic consumer lending market and improving its share in this segment up to 18%.

Another momentous event of 2010 was the launch of a new Customer Relationship Management System as an element of the work to build long-term relationships with clients of both corporate and retail business. The system allows meeting current demands of each customer and also forestalling client wishes. The opportunity to offer customers new products they might potentially be interested in reflects Alfa-Bank’s proactive approach to customer relationships. Plus, in 2010, the Retail Bank started transforming Alfa-Bank’s call centre into a sales and service unit offering the customers certain services by phone. Mobility of service, swift decision-making and invariably client-driven approach as well as technological advancement of retail business are the factors that make Alfa-Bank special compared to its competitors and lure more individuals to become Alfa-Bank’s customers.
Another event called to improve Alfa-Bank’s mobility was the evolvement of its E-Business into a separate division, the idea behind the electronic business being that Alfa-Bank should ensure customer service exactly when the customers need it. Owing to Alfa-Click electronic bank and Alfa Mobile service, Alfa-Bank customers are able to make the necessary transactions at any time of day and night without visiting a physical office. Both these services engaged new users in 2010. It is also important that Alfa-Bank quickly responds to evolving customer needs by developing customised applications for the most advanced mobile and handheld devices. Alfa-Bank is the unquestioned leader on the electronic banking market and in 2010 its Alfa-Click Internet banking service was once again recognised by Banki.ru as the best Internet Bank in Russia.

Alfa-Bank’s high technological effectiveness has also made it a leader in Internet acquiring. According to VISA and MasterCard data, Alfa-Bank’s current share on the Internet acquiring market is more than 30%. We intend to improve our performance in this business segment in the year to come.

In 2010, for the fourth time running, Alfa-Bank topped the general Customer Experience Index 2010 published by Senteo and PricewaterhouseCoopers, which is an obvious proof of Alfa-Bank’s leadership in retail business. Customer appreciation is the highest award a bank may possibly win. The growing number of retail and corporate customers by itself is recognition of Alfa-Bank’s strategy aimed at building and maintaining lasting customer relationships, its commitment to forestalling client needs and wishes and ensuring service excellence.

We highly appreciate the contribution of Alfa-Bank’s team, from top management to front-office staffs, to Alfa-Bank’s development. The team demonstrated its superior qualities during the crisis period and continued joint work in an environment of economic recovery. Our team expands and strengthens as the business develops and new corporate and retail banking services appear, but its high professional level and commitment to the common cause remain unchanged. It is not for nothing that Alfa-Bank top managers rank highest in the TOP-1000 Russian Managers rating compiled by the Russian Managers Association in almost all business segments. These rating positions illustrate Alfa-Bank’s ambition to only work with the best specialists in each field, irrespective of the level of operations concerned, both in Moscow and in the regions.

Year 2010 also saw Alfa-Bank receive other awards, including its remarkable second position in the Financial Institutions on New Markets category from Euroweek magazine for its placement of Alfa-Bank proprietary bonds in cooperation with UBS and Deutsche Bank. Alfa-Bank was the first Russian private bank to place Eurobonds for USD 1 bn. The 10-year placement was made at 7.75% p.a. These beneficial placement terms result from Alfa-Bank’s excellent performance in 2010 across all its business segments that affirmed the confidence of investors in Alfa-Bank as a stable financial institution actively developing its business and ranking among the leaders of the Russian banking sector.

Investor confidence is as essential for Alfa-Bank as the confidence of its customers who time and again select Alfa-Bank as their partner for building sustainable financial relationships. Alfa-Bank invariably justifies this confidence, taking care of its customers and offering a complete range of quality financial services as the biggest private bank in the Russian Federation.
Russian Economy and Banking Sector Overview

Petr Aven
President, Member of the Board of Directors

«The economy survived the crisis, but more investment and the removal of structural restraints are needed to see a return to pre-crisis growth of 6%»
Post-crisis growth below expectations

Expectations that the Russian economy would quickly return to pre-crisis growth rates after the sharp 7.8% drop in GDP in 2009 turned out to be overly optimistic. In 2010, Russia's GDP only managed to grow by 4.0%, much slower than the average annual growth rate of 6.3% posted in 2000-2008. This was partly caused by last summer's drought and the resulting crop loss, which is estimated to have cost the country 1 percentage point of GDP growth. However, even taking this into account, the growth rate still lagged the figures posted before 2008. As a result, neither real GDP nor investments managed to exceed 2008 levels last year.

The structure of the growth is also clearly weak. Around two-thirds of the 2010 increase in GDP came from restocking. In the first half of the year, it looked as though restocking was motivated by expectations of a recovery in global demand for fuel and metals. It could also have been triggered by state stimulus programs aimed at supporting domestically-focused producers, particularly auto manufacturers. In the latter case, restocking resulted from low demand for goods produced with state support. Investment growth of just 6.1% in 2010 confirms the small role investment played in economic growth.

Growth in final consumption was only 2.5%, and judging by personal income figures, this source of economic growth will likely remain limited. While prior to the crisis, annual growth in real disposable income reached 10-15%, starting in 2008, incomes rose by only 2-4% per annum. Moreover, unlike in other economies, where the crisis led to lower inflation and even deflation, Russia's CPI grew 8.8% per annum in both 2009 and 2010, slower than the 13% posted in 2008 but still much faster than the rates in developed and most developing nations and clearly negative for the public's purchasing power. Moreover, 2010 inflation was mainly driven by food prices, hurting low-income consumers. Income growth was also hampered by high unemployment: at the end of 2010, the jobless rate hit 7.2%, exceeding 2005-2006 levels. While consumption and investment growth in 2010 were below pre-crisis rates, Russia posted a strong increase in imports. As a result, higher consumption was 70% offset by the deterioration in Russia's external balance caused by the surge in imports by 25.6%, comparable with pre-crisis levels. While export growth was also sizable, coming in at 7.1%, it was not significant enough to compensate for the increase in imports. The latter indicates that a large portion of consumer demand was satisfied by foreign rather than domestic producers. Therefore, attempts to stimulate the economy by supporting final demand in effect provide support to the rest of the world. The ultimate beneficiaries of Russian households' rising consumption are not domestic but foreign producers. In 2010, the real volume of imports reached 39% of GDP, approaching the ten-year high seen in 2008. This is a direct consequence of the sluggish recovery in investments and poses a threat to the stability of Russia's balance of payments.

Fig. 1: GDP, investments, consumption, 2008 = 100%, real terms

Fig. 2: Income (% y/y) and unemployment (% of labor force), e.o.p.
Economy oversupplied with cash

As a consequence of slow economic growth, the real sector’s demand for financial resources was low. This was mainly due to the slow growth of the banking sector. Last year’s 31% increase in retail deposits resulted from an increase in pensions and slower price growth in the first half of the year, and it gave rise to a liquidity overhang rather than faster lending growth. Excess liquidity in the banking system increased from RUR1.7tn at YE09 to RUR2.2tn at YE10. In response, the CBR started placing bonds, sterilizing over RUR800bn between April and November 2010.

Despite the decline in interest rates driven by excess liquidity, lending growth, though it accelerated in 2010 compared with 2009, was much slower than in pre-crisis years: the corporate loan portfolio increased 12% after remaining flat in 2009, while retail loans grew 14%. The modest loan growth in the corporate segment was primarily due to ongoing problems with asset quality. The level of NPLs under RAS was 5.3% of the corporate and 6.9% of the retail portfolio as of YE10, exceeding the YE08 figures. The government’s decision to raise the payroll tax has also increased the cost of doing business in Russia, damaging the prospects of a recovery in demand. As a result, after the 2008 crisis, the corporate loan portfolio plateaued at 30% of GDP.

While the low level of retail loans of 9% of GDP implies growth potential, 2010 saw only a slight recovery after the 11% decline in 2009. The majority of this growth came from short-term consumer loans, which grew 30% but nonetheless account for only 8% of the total retail portfolio. The 6% decline in auto lending and very modest 3% increase in mortgage lending indicate that Russian banks’ retail clients only want credit instruments with a short maturity owing to high unemployment and the low visibility of income growth.

Another sign of the economy’s inability to digest the inflow of cash is Russia’s capital outflow. While other countries were afraid of unwanted capital inflows, $35.3bn of private capital flowed out of Russia. The outflow intensified in the second half of 2010, when Russian banks, companies and individuals divested $24.6bn out of the economy. The capital outflow cannot be attributed to any reduction in foreign debt liabilities, as banks actually increased foreign debt by $17.0bn, while other sectors increased foreign debt by a modest $3.8bn. Moreover, the key force behind the outflow was not banks, but companies, which, according to various estimates, purchased $20bn worth of productive assets abroad out of a company capital outflow of $51.2bn. It is worth noting that the capital outflow intensified despite the increase in the oil price, which would normally boost the attractiveness of the RUR as a savings and payment currency. This points to significant constraints on economic growth and thus demand for credit resources.

Fig. 3: Banking sector growth % y/y

Fig. 4: Capital outflow and oil price

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Source: CBR

Source: CBR, Bloomberg
2011 outlook: risks and opportunities

Budget policy, including the Pension Fund, plays a pivotal role in defining Russia’s economic landscape. Booming commodity prices and the overall increase in wages prior to 2008 forced the government to increase social obligations. Since 2007, pensions have increased by an average of 30% per annum, including an almost 45% increase in 2010. It is therefore no surprise that the Pension Fund deficit has grown: before 2007, it stayed within RUR700bn, while in 2010 the gap exceeded RUR2tn.

In effect, the federal budget deficit in 2009 and 2010 stemmed entirely from the need to cover the Pension Fund deficit. If we exclude transfers to the Pension Fund, the federal budget ran a surplus, meaning that the economy did not receive any significant fiscal support other than increased pensions.

While the key goal of this policy was to increase final demand, it failed to give the economy a strong boost, as high inflation prevented domestic producers from competing with imported products.

While increased social spending led to a strong inflow of retail bank deposits due to the high savings rate of pensioners, it did not manage to improve producers’ confidence. Moreover, the need to contain the Pension Fund deficit forced the government to spring an unwelcome surprise on the business community: an increase in the payroll tax from 26% to 34% in 2011, creating expectations of a further increase in the tax burden. These negative expectations and the high cost of doing business in Russia constrain growth.

Limited potential for personal income growth and the need for higher investment have brought the issue of inflation to the foreground. Nevertheless, a number of factors limit the CBR’s ability to take action. First, Russian inflation is largely non-monetary in nature, making monetary policy less effective in curbing inflation. Second, inflationary expectations have increased substantially over the last six months, reinforced by the hike in global food and fuel prices, which have themselves turned into inflationary threats. As a result, the CBR has been forced to raise key interest rates and allow the RUR to appreciate despite the slow pace of the economic recovery.

Boosting investments would be the most effective way to reignite economic growth under the current conditions. Investment growth is easier to achieve in an environment of low leverage: the Russian economy has an extremely low debt burden, as public debt amounts to only 10% of GDP, while banks’ and companies’ foreign debt does not exceed 35% of GDP. Moreover, the excess liquidity in the banking sector means lending activity can be easily restored.

However, overall economic growth prospects are crucial for economic agents when considering whether or not to invest. While before the crisis, the Russian economy could post strong growth despite administrative obstacles and the high cost of doing business, this was only possible owing to the clear prospect of rapid growth in personal disposable income and consumption. The period following the crisis has seen a sharp deceleration in income growth and higher dependence on budget support. This suggests a recovery in economic growth requires an increase in cost-efficiency in the real sector and the elimination of administrative barriers. Otherwise, growth rates in the coming years may turn out to be substantially below both expectations and their potential.
Альфа-Банк • Годовой отчет 2010 • Обращение Председателя Правления
Alfa-Bank loan growth in 2011 was almost three times the market average.

* Alfa-Bank and market corporate lending growth, RAS comparative figures
There has been a rush to improve the quality and reliability of complex banking services. Alfa-Bank has several competitive advantages in this area, particularly its wide product range, fast and efficient operations, state-of-the-art banking technology, extensive industry experience and a personalized approach to clients.

Ilya Poz
Member of the Executive Board, Co-head of Corporate-Investment Banking

“Our portfolio grew 24% in 2010. Alfa-Bank’s corporate loan portfolio expanded even faster than those of state-owned market leaders Sberbank and VTB.”

Maxim Pershin
Member of the Executive Board, Co-head of Corporate-Investment Banking
Corporate Banking

Summing up 2010

2010 was another great year for Alfa-Bank’s corporate business, as evidenced by the growth in loan portfolio and volume of funds attracted, reduction in troubled debt, development of risk-free business segments, launch of new products and progress in growing the new segment of small businesses across Russia. The synergy created by the integration of our corporate and investment businesses was clearly evident, and the cooperation between Corporate-Investment Banking and Retail Banking, including the use of an electronic business technology platform and extensive retail branch network, also bore fruit.

Competition intensified on the banking market, primarily owing to the growth of government-supported banks offering cheap funding. In response, we improved the quality and reliability of the complex banking services we offer, and we were quick to build on our competitive advantages, such as our wide product range, fast and efficient operations, state-of-the-art banking technology, expertise in the industry and flexible and personalized approach to clients. These features have helped and will continue to help Alfa-Bank stay on top, ahead of other private Russian banks, some state-owned banks and foreign banks operating on the Russian market. Our success in this area is confirmed by Alfa-Bank’s loan portfolio, which grew for the first time in several years, rising an impressive 24%, while the average market figure was just 11%. Alfa-Bank outpaced even the market leaders – state-owned Sberbank and VTB – in terms of the growth of its corporate loan portfolio. At the end of 2010, Alfa-Bank’s corporate loan portfolio was the sixth-largest in the Russian banking sector, according to RBC, and the largest among private banks. Alfa-Bank also improved its position on the demand deposit market. In 2010, Alfa-Bank increased its share of the corporate finance (fixed-term) segment of this market by 0.83 percentage points to 3.56% at the end of the year, with Alfa-Bank managing to attract $2,836m.

We were also able to reduce the amount of troubled debt by keeping to our tried and tested strategy. We managed to cut the volume of overdue corporate debt to $754m, as reported in Alfa-Bank’s IFRS statements, or 4.7% of the corporate portfolio, one of the best figures among Russian lending institutions.

Large and Medium Businesses

Alfa-Bank’s competitive edge enabled it to develop successful partnerships with major corporate customers in 2010, strengthening existing ties and building relationships with new clients. Although this market is also targeted by state-owned banks and international financial institutions, our unique and versatile offering and high-quality service lead many large companies to choose us as their preferred business partner. Alfa-Bank is able to offer large companies the wide variety of investment products and tools they need to optimize their finances.
The most significant transactions of 2010 included:

A six-year Loan Facility totaling RUR15.05bn for OJSC TMK, the largest manufacturer of pipes for the oil & gas industry in the world, to refinance its debt. Alfa-Bank was able to offer highly favorable lending terms and a competitive interest rate thanks to our in-depth understanding of the customer's business.

Alfa-Bank’s share in Euroset’s loan portfolio rose substantially. As of January 1, 2010, Euroset Group’s loans with Alfa-Bank amounted to $220m (50% of its aggregate loan portfolio). During 2010, the Group obtained additional loans totaling $150m from us for targeted funds attracted from Korea’s Eximbank, which allowed the company to refinance its loans with other banks. We also issued bank guarantees and counter-guarantees for major vendors totaling $124m. As of December 31, 2010, Euroset Group’s loan portfolio with Alfa-Bank, including guarantees and counter-guarantees, amounted to $452m (or 93% of its aggregate loan portfolio).

Alfa-Bank increased its share in Metalloinvest’s loan portfolio by entering into a number of Lending Agreements with Metalloinvest Holding companies (OJSC Mikhailovskiy GOK, OJSC Lebedinskiy GOK, OJSC Oskolskiy Electrometallurgical Works, LLC MetalloinvestTrans) for a total of $400m.

We provided up to RUR5.6bn in financing to LLC Transneftservis-S. OJSC Marienegosbyt acted as guarantor.

Eurasia Drilling Co. Ltd’s loan facility was increased to RUR7.5bn.

We also extended loan facilities to Magnit retail chain for up to RUR 4bn, as well as to Victoria Group.

Our services for many of the above companies were facilitated by the synergy created from the integration of our corporate and investment banking divisions, as our dealings with customers are not restricted to lending, but also involve various investment products.

Alfa-Bank uses the same approach in its relations with territorial generating companies: we have obtained substantial shares of their loan portfolios, and we are also developing our investment services to target these customers. In 2010, Alfa-Bank arranged bond issues for OJSC TGK-5, OJSC TGK-6 and OJSC TGK-9, demonstrating its ability to tailor its wide range of services to the customer’s needs. The joint efforts of our corporate and investment banking professionals give customers the opportunity to use products intended for corporate clients, which is why in 2010 we focused on closer interaction between these two areas of our business.

The merger between our corporate and investment businesses allowed us to offer improved services to a large number of customers in 2010. We were able to offer corporate customers a wider range of investment banking services, generating additional income for the entire Corporate-Investment Banking team. Alfa-Bank is expected to be one of the top-ten arrangers of bond placements in 2011 thanks to the team’s joint efforts.
The synergies achieved by our integrated corporate and investment team were abundantly clear when working with clients such as insurance company RESO Guarantiya, Euroset, Rusagro Group, Eurasia Drilling Co. Ltd and VimpelCom Group.

We have continued to work on integrating our corporate and investment businesses. For example, in 2010 we developed a list of priority clients to which we would offer Alfa-Bank’s entire range of services. A dedicated team will be responsible for maintaining relations with each customer, including a customer-relations professional and experts specialized in the various banking products we offer. As a result of teamwork, Alfa-Bank will be able to tailor its products and services to the customer’s needs.

A few years ago, Alfa-Bank decided to cut back its involvement with medium-sized businesses, as we believed this segment exposed us to considerable risk. However, the situation changed in 2010, and relations with medium-sized businesses, including regional companies, became a priority for our corporate business. This is why, despite rising competition in this segment from regional banks, Alfa-Bank significantly boosted its loan portfolio in this segment. Last year, the benefits of our extensive branch network, as well as our other advantages, were apparent in our bid to compete for regional mid-sized clients with local and regional as well as national banks. Our portfolio of loans to mid-sized businesses grew faster than the overall market.

**Mass Business**

A new Mass Business segment was set up in the Corporate-Investment Bank in 2010 to deal with small businesses. Alfa-Bank offers a range of services to these customers, including lending and settlement. The combination of a wide product range, easy-to-use customer service format, high-quality service and an advanced technology platform make us especially appealing to customers. The Corporate-Investment Bank is able to increase its presence in the corporate sector by opening mass business service points in our extensive retail network, which extends throughout Russia.

Alfa-Bank was one of the first Russian banks to begin developing its mass business across the entire country. Although we only launched this project in mid-2010, it was clear by the end of the year how successful it was, as the client base increased by 5% each month.

**Settlement Operations**

For a number of years, Alfa-Bank has given priority to expanding its risk-free segment and increasing the share of non-lending products in its corporate business. In this context, our primary focus is developing our settlement business. Although the share of commission fees in Alfa-Bank’s portfolio has not risen materially since we lowered our commission rates, the trend is clear: the total volume of Alfa-Bank’s customer payments rose by 42% from RUR5,489,471 in 2009 to RUR7,796,226 in
2010. This indicates that Alfa-Bank is becoming a leader in transaction banking. More and more companies are choosing us as their transaction bank even if they do not use our lending products. Alfa-Bank’s customers in the settlement business include RESO-Guarantyia, Unimilk, OJSC TransContainer, MGUP Mosvodokanal, Buket Group and numerous others.

**Factoring**

Factoring is another service in high demand that Alfa-Bank is developing. Although the total volume of factoring transactions is moderate, the service is gaining in popularity among Alfa-Bank’s customers and on the Russian market in general. By the end of 2010, Alfa-Bank’s factoring portfolio totaled more than RUR9bn, several times the 2009 portfolio. Alfa-Bank’s factoring business is growing much faster than the overall market, making us No. 3 among all Russian financial institutions in terms of transaction volume. Many companies are turning to Alfa-Bank on account of the numerous advantages of its product offering, comprehensive solutions and state-of-the-art technology, among other things. A fair number of factoring projects for major clients are currently under way, e.g. with CJSC Perekrestok Trade House, OJSC Magnitogorsk Metallurgical Combine, OJSC TNK-BP Holding, Eldorado, M-Video and CJSC Transmashholding.

Another advantage Alfa-Bank has over its competitors in this segment is its highly-qualified team of specialists, who not only keep abreast of market trends but also take the lead by developing new products and entering new markets. For instance, Alfa-Bank was the first institution to enter into factoring relations with oil companies. Our sophisticated factoring strategy and competitive edge underpin Alfa-Bank’s strong leadership position on the market, allowing us to aim for the No. 2 spot in the Russian factoring segment by the end of 2011.

**Trade Finance**

In late 2009, Alfa-Bank created a new team to develop trade finance. The team was already able to show substantial achievements in 2010 and continued to do so at the beginning of 2011, with Alfa-Bank leading the Russian market in certain trade finance formats. Thanks to our highly experienced staff and advanced banking technology, we are able to offer customers a wide variety of complex structured transactions. This is one of the factors driving our robust performance in this segment. At the same time, the use of trade finance mechanisms enables Alfa-Bank to receive higher fees and to compete in terms of financing rates with both state-owned and foreign banks for large companies’ business.

Our key trade finance customers are Euroset, LenSpetzSMU, Siberian Coal and Energy Company SUEK, Unimilk and Eldorado.
Cooperation with other Banks

Alfa-Bank is committed to strengthening its ties with other banks, both Russian and foreign. Many of the transactions completed in 2010 were carried out in cooperation with other financial institutions.

Our plans for 2011 include further development of syndication-related services. We are currently setting up an office to deal with this type of transaction, with Alfa-Bank intending to win a substantial market share on the syndicated-lending market.

Forecasts and Outlook

Competition is set to remain high on the banking market in 2011. However, the focus will be more on the range of products and the quality of services offered than on the price. In order to meet the market’s requirements, Alfa-Bank will continue to tap the competitive advantages that enable it to surpass other financial institutions. We will stay committed to improving the interaction between our corporate and investment businesses, developing new products and services and making good use of our technological advantage.

Alfa-Bank intends to boost its share on the corporate lending market in 2011. Judging by Alfa-Bank’s performance last year, this process is already well under way and will gain momentum in the coming year. Alfa-Bank also intends to raise earnings per client by selling customers a comprehensive package of services and products and also by reducing the number of one-off transactions.

We also aim to boost our commission income in 2011, which, along with fees and charges from the settlement business, consists of other income in the risk-free segments, including foreign exchange, brokerage, sale of swaps and hedges, and so on.

Finally, as in previous years, Alfa-Bank will continue to consolidate its market position and promote its image as the bank of choice for all types of corporate clients, from small businesses to market leaders. Our objective is to show our customers that Alfa-Bank can meet all their needs. We are a bank that can be trusted, one that our customers come to for advice on all types of financial issues. We have already managed to build this kind of relationship with many companies. Alfa-Bank has won the confidence of its customers by offering tailor-made, mutually-beneficial solutions. We have helped numerous clients to weather the crisis and have built strong, long-term relationships. Our customers offer the best proof of the benefits of doing business with Alfa-Bank. Thanks to our efforts, our customer base expanded last year, and we are confident that it will continue to do so this year.
This year, Alfa-Bank begins selling complex financial products to corporate customers, such as derivatives and hedges.

We have a strong base of corporate customers who are confident in Alfa-Bank, particularly in the expertise of our investment division, which puts Alfa-Bank in a unique position to offer clients the most sophisticated financial products, provide professional advice in the Russian language and help them meet any challenges they may encounter. Customer confidence is crucial in selling complex banking products, as is Alfa-Bank's ability to provide advice and assistance to Russian customers in the Russian language.
After the rapid decline and rapid recovery of 2008-2009, the market stabilized in 2010. This was apparent both in Russia and abroad, and Alfa-Bank’s investment division was no exception. Despite certain changes on the market throughout the year, Alfa-Bank was able to expand its investment business thanks to the combination of a significant volume of transactions and exceptional management.

Alfa-Bank also continued its cost-cutting efforts begun in 2008 and 2009, which have yielded excellent results. Total investment business costs were brought down to $54.5m, which brings us very close to the figures posted in pre-crisis 2006. At the same time, the investment business generated almost double the earnings of the year before to total $341m. The resulting cost-to-income ratio confirms that the operational performance and high cost efficiency of Alfa-Bank’s investment business is continuing to improve. In addition, our performance in 2010 exceeded our forecast by approximately 10% despite the strong competition on Russia’s investment market from state and foreign banks. These achievements prove that Alfa-Bank has substantial advantages over other banks, particularly with its versatile product range, advanced technology and substantial analytical resources.

The overall situation on the investment market in 2010 was quite favorable, largely owing to rising oil prices. Furthermore, the aftermath of the financial crisis was less severe than expected, and the market began to stabilize in spite of the uneven volume of transactions throughout the year. Not much of interest happened on the corporate finance market, which saw only an insignificant number of mergers and acquisitions and initial and secondary share offerings. Even so, our Equities department was able to meet the initial forecast for 2010. Real success, however, came on the fixed-income market, which grew so much that it was able to compensate for the sluggishness of corporate finance and even boosted Alfa-Bank’s investment business income in 2010 vs. previous years.

Cooperation with Stock Exchanges

In 2009, Alfa-Bank increased its interest in OJSC Russian Trading System (RTS) from 5.36% to 9.59%. In 2010, as expected, RTS shares gained vs. the beginning and even the end of 2009. Alfa-Bank therefore made a substantial profit off of the deal, which we expect to turn into cash in 2011.

Equity Markets

Equity markets were fairly stable throughout 2010. The market slackened off somewhat in the second quarter, but this was offset by the significant upsurge in the last quarter. Stocks continued to rise at the beginning of 2011, demonstrating record highs for the post-crisis period. In line with the market situation, we expect to see a further upswing on global equity markets in 2011, including Russia, driven by rising prices for commodities and chemical and food products, as well as other factors.
Alfa-Direct

In 2010, Alfa-Bank further developed the Alfa-Direct system of Internet securities trading, materially increasing both the number of e-trading accounts and the number of active users in the system.

Another significant factor was the decision to increase limits on lending for e-trading system users in response to the decrease in volatility on the market in order to boost the volume of trading on Alfa-Direct. Finally, our active cooperation with the Retail Bank aimed at signing up new traders for the Internet trading system was a success. The ongoing joint efforts of Alfa-Bank’s Corporate-Investment and Retail businesses in this sphere helped improve sales of Alfa-Bank’s investment products.

Fixed Income Market

The Investment Bank’s operations on the bond market in 2010 were very successful. Alfa-Bank effectively gauged the financial position of various companies and capitalized on the situation. For example, we profited significantly from acquiring bonds of Alfa Group companies. Once again, Alfa-Bank showed that it is a debt-market leader.

In 2010, our Investment Bank approached the top ten companies specializing in RUR bond placements. We expect that in 2011, Alfa-Bank will become one of the top ten market leaders in this segment. This is a momentous achievement for Alfa-Bank, which only began developing this business line a few years ago. It also demonstrates the synergies between our investment and corporate businesses, which allowed us to offer our customers a package including loans as well as bond placements.

Alfa-Bank performed exceptionally well on the RUR bond market. Of particular note was the Vimpel-Com-Invest LLC bond issue arranged by Alfa-Bank. The issue was co-arranged by ZAO Raiffeisenbank and Renaissance-Capital. Owing to high demand, the first coupon rate was fixed at 8.3% p.a., substantially below the initial guidance of 9-9.5% p.a. The one-time, large-scale placement of five-year VimpelCom-Invest bonds was a milestone event for the entire Russian bond market, and the outcome of the placement was in large part due to Alfa-Bank’s success as an arranger.

The placement of proprietary bonds arranged by Alfa-Bank in cooperation with UBS and Deutsche Bank was even awarded second place by Euroweek in the Financial Institutions in New Markets category.

Other outstanding achievements of the year included arranging three bond issues for territorial power generating companies. Alfa-Bank arranged the debut placement of OJSC TGK-9, which was completed on August 16, 2010: demand was almost double supply of RUR15.8bn. The high demand and large number of bids made this transaction a significant event for the Russian energy sector on the public debt market. The placement was also the first successful joint project between IES Holding and Alfa-
Bank. Following the placement, Alfa-Bank confirmed its ability to deliver outstanding results in arranging primary bond placements.

Alfa-bank also acted as an arranger for the debut bond issue of OJSC TGK-6. The transaction was completed close to the lower end of the guided range, which, along with the large number of bids, illustrates the significant interest in bonds issued by power sector companies.

Finally, in October 2010, Alfa-Bank arranged the placement of OJSC TGK-5 bonds with a total face value of RUR5bn. Again, the pricing was at the lower end of the yield range, and bids substantially exceeded the offering, indicating considerable interest in the company’s securities. Both Alfa-Bank and IES Holding were very happy with the results of the placement.

Alfa-Bank also arranged the debut commercial paper placement for construction company CJSC CCMO LenSpetzSMU, worth RUR2bn, and a bond issue for RBC Finance totaling RUR3bn.

The key event of 2010 for Alfa-Bank, as for the entire Russian bond market, was the first-ever placement of foreign sovereign bonds from the Republic of Belarus. The issue was arranged by Alfa-Bank, Sberbank and Gazprombank. The total face value of the placement was RUR7bn. The success of the placement cannot be overestimated, as it will likely encourage other foreign borrowers to enter Russia’s capital markets. Alfa-Bank’s contribution to the project underscores its efforts to be a leader in developing new products that define the future of the Russian fixed income market.

In the reporting year, Alfa-Bank also acted as contracting party under currency coupon swap transactions for OJSC Aeroflot. The currency coupon swap allowed Aeroflot to obtain a low effective interest rate of 3.89% for its euro-denominated three-year bonds. No Russian company has ever managed to borrow so cheaply on the Eurobond market. This effective interest rate is close to the yield on Russia’s five-year sovereign Eurobonds of 3.63%.

We have carried out numerous high-quality and lucrative transactions on the fixed-income market. Alfa-Bank takes great pains to achieve the best possible outcome for both its customers – the company placing the bonds – and the bond purchasers. Placements are done at beneficial yields and enjoy high demand. Alfa-Bank should continue to benefit from this booming investment segment.

Derivatives Brokerage

In 2010, Alfa-Bank took yet another step in developing its derivatives business. In the reporting year, we implemented new IT systems to enable more active sales of derivative financial instruments and other complex banking products to customers. We expect this business will be very active in 2011. The
Investment Banking team was strengthened by the addition of new analysts with excellent reputations on the market. All this enables Alfa-Bank to offer the most sophisticated banking products to all of its customers. Knowledge of the market, an in-depth understanding of the products offered by Alfa-Bank and of customer needs, the ability to sell and support the products, and a high-quality risk management system give Alfa-Bank a significant advantage when working with derivatives.

Corporate Finance

Last year was a quiet one for corporate finance, so the division had little impact on Alfa-Bank’s investment business. However, Alfa-Bank did manage to get some delinquent debts repaid, including the debt of RBC Group. The Corporate Finance Division expects activity will pick up going forward. The division’s earnings in the first half of 2011 are set to exceed aggregate income in 2009 and 2010.

Alfa Capital Holdings (Cyprus) Limited

Investment company Alfa Capital Holdings (Cyprus) Limited has operated in the Republic of Cyprus since 1996. Alfa Capital Holdings (Cyprus) Limited holds a European license from the Cyprus Securities and Exchange Commission for providing investment services, a wide range of financial services and financial instruments. The company operates on key global markets, in Ukraine and in Russia. It also has a branch in the UK, Alfa Capital Markets (ACM UK), whose core activity is arranging deals for companies from Russia and other CIS countries.

Alfa Capital Markets (UK)

Alfa Capital Markets (ACM UK) is the London branch of Alfa Capital Holdings (Cyprus) Ltd, providing services to a large number of institutional investors and hedge funds in the UK and continental Europe and working with assets in Russia and other CIS countries. In 2010, Alfa Capital Markets went on a recruitment drive and hired highly skilled and experienced personnel, bringing renewed energy to the branch’s operations.

Alforma Capital Markets (USA)

Alforma Capital Markets, Inc. (USA) is Alfa-Bank’s investment subsidiary in New York. The company has been operating in the USA since 2001. It holds a license from the US Securities and Exchange Commission (SEC) and focuses on working with institutional investors and hedge funds in the USA, Canada and Latin America. As with Alfa Capital Markets, substantial staff changes and recruitment at Alforma Capital Markets (USA) in 2010 vastly improved the performance of the company’s key business areas.

Cooperation With Other Banks

Cooperation with other banks is an integral element of Alfa-Bank’s investment business because a majority of investment transactions and projects involve other financial institutions, including foreign
banks as well as Russian state and private banks. Alfa-Bank’s global correspondent network currently comprises more than 400 partner banks. Leading banks in Russia and other countries have demonstrated confidence in Alfa-Bank as Russia’s number one private bank, which is crucial to our success. Our productive relations with various financial institutions confirms that this confidence is well-earned and that Alfa-Bank is a leader on the Russian investment market.

**Investment Conferences**

In October 2010, Alfa-Bank held its fifth national banking conference, “The Russian Banking Sector: Living the New Reality”. The conference aimed to give an overview of the economic environment and the state of the Russian banking sector as well as to discuss various practical aspects of banking operations after the crisis. The speakers at the conference included Alfa-Bank President Petr Aven, President of the Russian Union of Industrialists and Entrepreneurs Alexander Shokhin, Deputy Minister for Economic Development and Trade of the Russian Federation Stanislav Voskresenskiy, Assistant to the President of the Russian Federation Arkady Dvorkovich, Head of the Federal Service for Financial Markets Vladimir Milovidov, Higher School of Economics Director of Sciences Evgeny Yasin, Chairman of Alfa-Bank Executive Board Rushan Khvesyuk and many others.

**Plans and Priorities for 2011**

We will continue to vigorously develop the investment arm of Corporate-Investment Banking in 2011. The Corporate Finance Division will become more active, as new transactions on the equity markets have already been planned, and we will start work in derivative sales. The Corporate-Investment Bank will focus on further developing its Alfa-Direct Internet trading service as well as the innovative Alfa-FOREX system. Alfa-FOREX will follow in the footsteps of Alfa-Direct by trying to build its business through cooperation with the Retail Bank. The latter’s cutting-edge technology, aided by the Alfa-FOREX system, will enable each customer to buy and sell foreign currency on the Internet.

Alfa-Bank will also focus on creating synergy from the merger between our corporate and investment businesses. The performance of the combined Corporate-Investment Bank attests to the success of the integration. Alfa-Bank wants to go even further and begin selling complex financial products to its corporate customers, such as derivatives or hedges. Our strong base of corporate customers is confident in Alfa-Bank, which, combined with the considerable expertise of the investment division, puts Alfa-Bank in a unique position to offer its clients the most sophisticated financial products, provide highly professional advice to Russian speakers in Russian and help clients through any situation they might find themselves in. For the purposes of complex banking products, customer confidence in Alfa-Bank is crucial. Corporate-Investment Bank clients view Alfa-Bank as a reliable and trustworthy financial partner. This lays the foundation for productive relationships with clients in all segments of the investment business.
RUR150bln — volume of operations in Alfa-Click Internet Bank in 2010
«The retail business of Alfa-Bank not only achieved its objectives for 2010, but also exceeded the plan along a number of performance lines: the Retail Bank earned record profits in the reporting year and the number of its retail customers exceeded 5 million. Alfa-Bank has a unique offer to make to its clients, including a superior choice of banking products, easy-to-use IT platform and service excellence. More and more people each year choose Alfa-Bank as their financial partner.»
The Retail Bank chalked up a number of great achievements in 2010. The retail business of Alfa-Bank not only achieved its objectives, but even exceeded them in a number of areas. All this resulted in a record Retail Bank profit before tax in 2010 of $208m, the highest figure in the history of Alfa-Bank’s retail business.

Each line of the retail business played a part in this success. In particular, Alfa-Bank materially improved its positions on the lending market, rising two notches to No. 5 in Russia in terms of overall loan portfolio. Alfa-Bank’s loan portfolio expanded by 9% compared with 2009, up to $2,286m. This growth was driven by consumer lending, with Alfa-Bank ranked No. 2 on the market, capturing an 18% share.

The considerable increase in Alfa-Bank’s share of the demand deposit market was also remarkable. In 2009, our share of this segment was about 5.06%, increasing to 5.52% by the end of 2010. This is an encouraging trend, demonstrating customer loyalty and confidence in Alfa-Bank as a service supplier. Alfa-Bank remains a steady No. 3 in Russia in the segment, bested only by two state-supported banks, Sberbank and VTB 24. Notably, our portfolio of $3.595m in demand deposits is only $0.5bn less than that of VTB 24. As to the overall individual deposit market, Alfa-Bank improved its position in 2010, emerging as number four among all Russian banks.

Another paramount indicator is that the total number of retail customers increased by 37%, or more than 1.4m, to over 5m.

**E-Business**

In 2010, our Electronic Business evolved into a separate business line. This step was aimed at integrating resources dedicated to strategic development of the retail business in the long term, in particular Alfa-Bank’s presence on the Internet and synergy between banking services and the mobile communications market. Aware of its customers’ needs, Alfa-Bank appreciates their time and offers solutions that permit the customers to deal with the bank at any time that is convenient, even outside branch working hours. The future of retail banking lies in mobile devices such as smart phones. With this in mind, Alfa-Bank is developing special offers and services permitting clients to manage transactions on their own using mobile devices.

The E-Business segment’s 2010 income totaled $37m, much more than planned. Already, more than 90,000 people use our Alfa Mobile service, while 1.2m customers use Alfa-Click Internet banking and the Alfa-Check SMS service. Alfa-Bank’s earnings from remote customer service channels amounted to $27m.

Another milestone event of the reporting year was the expansion of the range of transactions available to customers online through the Alfa-Click Internet bank, including making deposits, paying taxes and fines, purchasing an Alfa-Travel Electronic Insurance Policy, and interfacing with the Gorod Federal Payment System, which enables customers to make utility and other payments. Remote payments are already possible for more than 1,500 services from different providers.
Nearly 90% of internal transfers between customer accounts of RUR100,000 or more are currently made through Alfa-Click, with the remaining 10% performed at physical branches. In addition, from August 2009, each customer of Alfa-Bank can order a virtual bank card through our Internet Bank for use in payments and settlements on the Internet. The virtual card is highly secure, since a customer does not need to disclose the details of his or her principal bank card in making payments on the Internet. This unique product quickly proved to be highly popular: within one year of the launch of the service, bank customers filed over 100,000 requests for virtual cards.

The Alfa Mobile service also gained in popularity in the reporting year. In 2010, we issued special applications for iPhone, iPad, and handheld devices using the Android operating system. Once the iPhone application became available, the number of connections to the system per week doubled, and a similar spike in connections was seen again after the Android software was released. This is a telling trend, showing that Alfa-Bank customers are increasingly using their mobiles for banking services. Alfa Mobile currently offers virtually any kind of transaction, in particular transfers between accounts (including in different currencies), topping up mobile balances, payments to Internet providers and utilities, loan repayments, account statements and various types of payments based on predetermined templates.

The E-Business segment within our retail bank will continue improving its existing products and developing innovative new ones similar to our successful Alfa-Click and Alfa Mobile services. In 2011, we intend to focus on products for social media and mobile commerce. In addition, we will continue to improve existing Alfa-Bank services, such as Internet purchases. According to Visa and MasterCard data, Alfa-Bank currently processes more than 30% of Internet transactions within its market. This means that more than 30% of all card-based transactions on the Russian Internet are processed by Alfa-Bank, making us the leader in this sector. Our total Internet transactions turnover in 2010 was about $590m, or 150% above Alfa-Bank’s own forecast for the year.

In December 2010, Alfa-Bank also began to offer processing services for card payments on the Internet via the QIWI payment system. The multi-layer fraud prevention and risk transaction monitoring system implemented in Alfa-Bank’s processing centre allows for the identification and prevention of even atypical fraud transactions, ensuring a high level of safety for payments made using cards, regardless of the issuing bank. In addition, in August 2010 Alfa-Bank won the right to provide Internet transaction services to Aeroflot airlines. All payments for tickets booked online are now processed by Alfa-Bank.

In 2011, E-Business will focus on improving customer activity and convincing new customers to use remote customer service channels. A big event this year will be the completion and launch of the new Internet banking platform Alfa-Click 2.0, with extended functionality and enhanced user-friendliness.

**Cooperation with Virtual Payment Systems**

In August 2010, Alfa-Bank launched a new joint project with the WebMoney Transfer payment system. Initially, it allowed WebMoney users to top up their electronic wallet instantly using a card issued by
any Russian bank, having first activated it at any Alfa-Bank ATM. Another phase of the project was the launch of a new joint service allowing Alfa-Bank customers to instantly top up their WebMoney wallets by making transfers from their bank account and, vice versa, make payments to their bank account from their e-wallet. Finally, Alfa-Bank and WebMoney launched an e-invoicing service in November 2010, which enables Alfa-Bank customers to pay for goods and services at online stores that are WebMoney partners using Alfa-Click Internet Bank even if they have no e-wallet.

Our cooperation with electronic payments leader Yandex.Dengi also continued. Since Alfa-Bank’s implementation of new technology in 2010, cardholders from any Russian bank are able to instantly top up their Yandex.Dengi wallet.

**Retail Lending**

One of the bank’s top priorities in 2010 was operations on the lending market aimed at extending Alfa-Bank’s loan portfolio and loan offerings. We launched a number of initiatives, focusing in particular on a new program that grants personal loans on the basis of risk-based pricing, i.e., with customized interest rates. Borrowers are now offered loans on individual terms and conditions. The applicable interest rate, maximum loan amount and credit period are determined based on the potential borrower’s creditworthiness, which is in turn calculated based on credit history and data on the applicant’s personal finances. The borrowers the bank recognizes as creditworthy thus get lower interest rates and generally more favorable lending terms. This approach demonstrates to both future borrowers and existing customers that one should be mindful of his or her credit history, since it will one day have an immediate effect on the offer Alfa-Bank makes.

Another new lending product Alfa-Bank launched in 2010 was Credit Bistro. A key feature of this type of loan is that it is granted with need for only a minimal number of documents and within a short amount of time. An average Credit Bistro loan will be approved within 30 minutes. Loans may be made for a term of 5 to 8 months, with amounts ranging from RUR10,000 to RUR50,000. This loan program conveniently allows customers to borrow a moderate sum whenever they need it. These loans are currently issued at nearly every Alfa-Bank branch.

In 2011, we will continue to be committed to expanding our loan portfolio at a pace significantly above the market. Our planned portfolio growth is about 30%, assuming average market growth of 10-15%. We will also continue to shorten the length of time required to approve a loan.

**Consumer Lending**

Retail Banking operations in the consumer lending segment were quite a success in 2010. Alfa-Bank moved to number two on the market and increased its share to 18%, which means that we correctly formulated our strategy for the sector. We view this lending segment as a priority and will further develop these operations in 2011.
Alfa-Bank is currently the only market player that cooperates with all national retail chains. In 2010, we issued loans worth a total of $1.3bn. The number of points of sale offering this service increased significantly, and their operational efficiency improved. We now have twice as many points of sale as we did in 2009, where consumer loans are extended using “unmanned technology.” This is highly profitable for Alfa-Bank because the credit is extended by an employee of the point of sale itself without involving bank staff. There are already more than 13,000 points of sale. This type of automated loan accounted for just below 50% of the total at the end of 2010, while in early 2009 we issued only 5% of total loans using this method. A paramount task Alfa-Bank faces in the near future is to revitalize the transfer of consumer lending customers to traditional retail business clients.

Auto Finance and Mortgage Lending

A couple of years ago, Alfa-Bank deliberately decided to refrain from any major steps in the auto finance market because there was no meaningful legal framework for successful and secure operations on the market. Today, Alfa-Bank only extends car loans to existing customers. In 2010, we reduced interest rates for this type of loan for employees of our payroll project customers and Alfa-Bank partner companies.

The mortgage lending market experienced a tangible upsurge in the reporting year, with the volume of extended mortgages materially above the level of 2009. Now, however, the market situation is quite different, since about 75% of it is covered by state-owned banks, making it virtually impossible to compete. Even so, Alfa-Bank managed to boost its mortgage operations, with the monthly loan extensions increasing five-fold. We intend to issue three or four times the volume of mortgages in 2011 as in 2010, increasing lending to 40-50% of the pre-crisis level.

Regional Development

Alfa-Bank continued consolidating its position in the Urals region in 2010, primarily in Yekaterinburg and the Sverdlov Regions. This expansion was led by the absorption of Severnaya Kazna Bank. About 80% of this local bank’s business was concentrated in these regions, providing a solid foundation for Alfa-Bank’s further development in the Urals. After the acquisition, the number of our branches in Yekaterinburg swelled from 4 to more than 20. Alfa-Bank has become a major player on the market, gaining over 120,000 new customers. This regional market is currently competing with St. Petersburg and the Leningrad Region for the title of the second-best-performing region after Moscow.

Alfa-Bank services enjoy robust demand in different regions of Russia. Each year we strive to optimize our network by closing branches or moving them to more promising regions when we find they are not being used by customers. We also open new offices when there is a clear need. We intend to open a number of supplementary offices in 2011, as well.

We continue to expand our A-Club network for high-net-worth clients. In 2010, we opened A-Club branches in Tyumen and Chelyabinsk, while the first quarter of 2011 will see the opening of a new large building in the centre of Moscow with floor space of over 1,000 sq. m. to offer customers a new,
even higher level of service. This type of banking service is in great demand across Russia, as evidenced by the steady increase in the number of customers and balances on Alfa-Bank accounts. The A-Club is growing rapidly in every city where it is present.

Value-Added Cards

The retail bank pays a great deal of attention to its product range, as the unit develops and launches value-added products in cooperation with Alfa-Bank business partners. During 2010, we launched several new and exciting projects.

First, Alfa-Bank increased its presence by contracting with X5 Retail Group to launch co-branded programs for Perekrestok and Karusel stores. The idea of issuing Alfa-Bank payment cards that are also loyalty cards for these retail chains has been successful in increasing the number of retail customers. The project was launched late in 2010 and will considerably extend Alfa-Bank’s geographical coverage using the entire network of stores, which includes 300 points of sale. Considering the traffic at Perekrestok and Karusel stores and Alfa-Bank’s own customer base, we expect to issue several hundred thousand cards in the next three to four years.

Another exciting project we developed is the co-branded S7 PRIORITY — VISA — Alfa-Bank card. By paying for both major and daily purchases, holders of these cards accumulate bonus miles which they can then exchange for air tickets. Since S7 airlines, which ranks No. 2 in Russia, joined the oneworld® global airline alliance, customers now have the opportunity to use their bonus miles on flights operated by other airlines in the alliance in addition to flights operated by S7 airlines. The joint project was launched in September 2010 and, judging by the initial results, it is already exceeding our expectations, with more than 50,000 cards forecast to be issued within twelve months.

2010 also saw the first joint project between Alfa-Bank and OJSC VimpelCom (owner of the Beeline brand) with the co-branded Visa — Beeline — Alfa-Bank card “Minutes for Purchases”. These cards are already being issued nationwide. Beeline subscribers holding the cards pay for goods and services using the card and receive bonus minutes on their mobile account. The project makes the best of the expertise of the largest Russian private bank and one of the leaders of the mobile communications market.

Another popular product that was launched in 2010 is Metrocard. This new MasterCard Express Card combines the functions of a travel card for the Moscow metro and a credit card. The card is equipped with a proximity chip that allows cardholders to pay their fare on the Moscow underground without actually purchasing travel tickets for Moscow’s busy public transport network.

It goes without saying that we continue to develop and promote our products launched in 2008 and 2009, of which the most notable are the Alfa-Bank — Cosmopolitan — Visa and the ManCard. These projects are hugely successful, largely owing to the commendable work of the teams in charge of them.
Development of value-added cards offering customers more than just a means of payment has been a priority for Alfa-Bank’s retail business for a number of years. Today, we are able to say that by the end of 2010, Alfa-Bank had covered all client segments it intended to attract by developing these products. Alfa-bank intends to further develop in this area by improving and optimizing its own loyalty program, allowing our customers to use a single Alfa-Bank card to reap additional benefits from various partners of the bank. We have already begun working on this program.

**High Level of Service**

Alfa-Bank’s essential competitive advantages are its unique product range and leadership in banking technologies as well as high service quality. In 2010, Alfa-Bank once again ranked number one in the general Customer Experience Index 2010 published by Senteo and PricewaterhouseCoopers. This was the fourth year in a row (first was in 2007) that Alfa-Bank’s Retail Bank was named the best bank by this annual survey.

The survey rates all banks on the basis of five core elements of customer experience: Brand Development, Communications on Services, Front Office Environment, Offering and Service Culture. Alfa-Bank outperformed everyone by scoring best in the overall rating and also in the Brand, Communications and Offering categories.

This is a magnificent achievement by the entire Retail Banking team, which adopted a comprehensive approach to delivering excellent service to its clients. These efforts include a personnel training and coaching program, motivational program for staff and a corporate culture that calls for impeccable customer service.

**Client Relationships**

In the summer of 2010, the Retail Bank started a full-scale reorganization of its call centre to transform it into a sales and service unit. Now, certain services offered by Alfa-Bank can be acquired by phone. This applies to insurance policies, the opening of a number of deposit accounts when a customer has an existing account with Alfa-Bank, making appointments to apply for a personal loan and verbal confirmations by customers of their intention to accept an offer made by Alfa-Bank. We continue to work on this demanding project, which will raise client-bank relationships to a new level.

Another similar initiative pursuing the same objectives is the launch of a CRM system that will translate personal client information available to Alfa-Bank into palpable business actions taken by employees communicating with each customer. The system is currently used by front-office staff at branches but will then be rolled out to cover the call centre and be integrated with the Alfa-Click Internet Platform.
Thus, when dealing with any Alfa-Bank agent, including Bank employees and the Internet Bank, a client will be able to express his wishes, be heard by Alfa-Bank and count on it to offer the solution that best suits his needs. This is a large-scale investment in the future intended to offer our clients the products they need when they need them.

**Client Feedback**

Alfa-Bank values communication with customers. For instance, Alfa-Bank is present in all major social media, including Twitter and social networks. A huge event in client communications in 2010 was the launch of the Alfa-Idea website, which is intended to facilitate direct contact with existing and potential customers. This is the first ever online project by a commercial bank that will be written by the users themselves. It aims to collect and streamline proposals and ideas submitted by the clients to ensure Alfa-Bank services are even more convenient and friendly. Users are able to post their suggestions relating to Alfa-Bank products and services and participate in online discussions of these suggestions with Alfa-Bank specialists in charge of certain topics and with each other. Customers also vote for the various suggestions, and Alfa-Bank implements the most popular ideas. The website gets tens of thousands of users per month. It was launched in October 2010, with users submitting more than two thousand ideas within the first week. Dozens of proposals are being considered by Alfa-Bank, while about ten suggestions have become reality.

**Prospects for 2011**

The Retail Bank expects its customer base to expand significantly in 2011, including into the high-net-worth individual segment. According to our forecast, Alfa-Bank’s share on the demand deposit market and the overall volume of deposits attracted will continue to grow steadily. We also anticipate a surge in the Retail Bank’s loan portfolio driven by four segments: consumer lending, credit cards, personal loans, and mortgages. By the end of 2011, Alfa-Bank’s loan portfolio is expected to approach $3bn.

Projects to be launched in 2011 include the re-design of Alfa-Bank branch offices and release of the new Alfa-Click Internet Bank platform – Alfa-Click 2.0.

Finally, the Retail Bank’s priority for 2011 is maintaining its position as number one in customer experience, as this is the foundation of our retail business, allowing us to build long-term relationships with each customer. Alfa-Bank offers unique advantages to its clients, including a superior choice of banking products, easy-to-use IT platform and excellent service. The expansion of the bank’s client base in 2010 suggests that this approach to client relationships is bearing fruit, with more and more people each year choosing Alfa-Bank as their financial partner.
Alfa-Bank places great importance in proper management of financial risk. The primary objective of Alfa-Bank’s risk management is finding the optimum balance of risk and return. Risk management was particularly important in 2010 because the financial crisis required a clear assessment of both internal and external risk to Alfa Bank’s existing portfolio as well as to potential deals. The work we have done allowed us to avoid financial losses and maximize profits in the current economic environment.

The bank applies a single risk management policy to all its products. This involves managing financial risk, including credit, market, currency, liquidity and interest rate risk, and operational risk. The financial risk management policy establishes risk limits and ensures that exposure stays within these limits. Operational risk management is intended to ensure proper functioning of internal processes and procedures to minimize Alfa-Bank’s exposure to internal and external risk factors apart from those stemming from financial instruments.

Alfa-Bank’s approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification, and (iii) risk assessment, management and control.

**Risk Governance**

The Board of Directors of Alfa-Bank is in charge of overseeing the risk management framework, monitoring the management of key risks and approving significantly large exposures.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.
The Executive Board of Alfa-Bank is responsible for monitoring and implementing risk mitigation measures and making sure that Alfa-Bank operates within the established risk parameters. The Risk Management Department ensures the implementation of common principles and methods for identifying, measuring and controlling the impact, managing and reporting of risk.

Credit, market and liquidity risks at both the portfolio and transaction levels are managed and controlled through a system of Credit Committees and through the Treasury Department, the Risk Management Department, the Retail Risk Management Department and Asset and Liability Management Committee (“ALCO”). In order to facilitate efficient decision-making, Alfa-Bank has established a hierarchy of credit committees depending on the type and amount of the exposure. The Risk Management Department deals with credit risk for corporate clients, financial institutions, small- and medium-size businesses, and mortgages along with market risk and operational risk. The Retail Risk Management Department deals with credit cards and personal installment loans, car loans and consumer loan portfolios.

**Risk Identification**

Both external and internal risk factors are identified and managed throughout Alfa-Bank’s organizational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as the basis for determining the necessary mitigation procedures. A brief overview of the key risks is regularly reported to the Executive Board and the Board of Directors of Alfa-Bank.

**Risk Assessment, Management and Control**

Alfa-Bank’s risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by Alfa-Bank’s Risk Management Department and Retail Risk Management Department. Compliance with Alfa-Bank’s standards is supported by periodic revisions undertaken by the Internal Audit Department. The revision results are then discussed with the management of the business unit to which they relate and are presented to the Audit Committee and the senior management of Alfa-Bank.

There were no significant changes to the system of risk management in 2010 vs. 2009. Since the end of the financial crisis, Alfa-Bank has been updating its risk management policies and procedures to secure and strengthen its positions on the banking services market.
Credit Risk

Alfa-Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Alfa-Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers, specific product, industry sector, etc. Such risks are subject to cyclic testing and regular review.

The analysis of credit quality of financial assets is based on their stratification by set limits, with higher limits assigned to the counterparties whose credit quality is better. The exposure to any one borrower is restricted by sub-limits covering on- and off-balance sheet accounts and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

Alfa-Bank defines its risk appetite by approving a Lending Policy, assigning authority to decide on risk acceptance and approval of major transactions by committees. The Lending Policy defines the framework for monitoring exposure to credit risk, including portfolio concentration limits and segregation of duties. In 2010, Alfa-Bank revised its Lending Policy twice to ensure conformity with the current risk and market conditions.

Alfa-Bank’s credit committees are responsible for approving credit exposures with each credit commit- tee acting on the basis of special instructions approved by the Board of Directors.

• Depending on the magnitude of credit risk, decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees. The ceiling risk level is approved by the Executive Board: most major transactions worth above $100m fall into this category. In certain circumstances, loans approved by the Main Credit Committee also require endorsement by the Executive Board or the Board of Directors.

• The Retail Credit Committee monitors the performance of the retail loan portfolio and its develop- ment outlook. The Retail Credit Committee also approves new retail credit products and effective margins on all retail products, controls the provisioning level for the retail portfolio and retail portfolio write-offs and makes other decisions regarding retail lending. The committee convenes monthly and its members represent all key retail divisions of Alfa-Bank.

Credit Risk Monitoring

The level of Alfa-Bank’s credit risk exposure is subject to a continuous monitoring process.

The Credit Department identifies potentially problematic transactions using an unambiguous set of criteria to assign a problem status to a transaction as well as escalation procedures based on issue
status. Any significant exposures to a customer with deteriorating creditworthiness are reported to and reviewed by the relevant Credit Committee.

For better credit risk management, Alfa-Bank segmented its credit portfolio into the following loan pools:

- The current loan pool consists of current loans and loans with technical delinquencies of under 14 days.
- The pool of potentially problem loans comprises loans that are delinquent by more than 14 days, which signifies credit quality deterioration.
- The pool of doubtful loans includes loans with indications of quality deterioration and delinquency of more than 14 days that may, however, be at least partially collected.
- The bad debt pool consists of loans whose collection will require enforcement of security and initiation of court procedures.

Client relationship managers and credit managers visit clients monthly, quarterly or semi-annually, depending on the credit quality of the customers and the magnitude of the exposure. Analysis of clients’ sales, margins and loan portfolio dynamics is carried out on a monthly basis.

Monitoring of retail portfolios is conducted by the Retail Risk Management Department at the end of each month or earlier, depending on the need. Such monitoring includes tracking the following indicators: approval/decline rates across all product and customer segments; delinquency (both lagged and coincident); rollover conditions (transition of overdue balances across various stages); contact and promise rates to track collection efficiency; vintage loss rates by product and origination; special pilot programs; sector caps identified for each of the retail portfolios; charge-off rates for each product portfolio; recoveries for each of the product portfolios; scorecard application stability and performance across all products where the cards are used; and effectiveness of the verification segmentation.

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee. Situations where limit utilization is close to maximum are also reported to the Main Credit Committee. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with Alfa-Bank’s risk appetite and portfolio limit structure.

Throughout 2010, Alfa-Bank focused on problem loans. In addition, the Committee for Collection of Corporate Overdue Loans monitored problem loans on a weekly basis, including prospects for repayment, collateral repossession, legal processes seeking collection, restructuring terms, and margin calls.

**Credit Risk Control**

The purpose of credit risk controls at Alfa-Bank is to ensure strict adherence to Alfa-Bank’s policies and procedures. For instance, Alfa-Bank has implemented credit risk control mechanisms that promote
efficient risk management. In order to improve the collection of loans to individuals and to control delinquencies more effectively, in 2009 the Retail Risk Management Department introduced collection scorecards for different stages of the collection process and implemented closer monitoring of collection rates in different segments.

**Credit Risk Mitigation**

Alfa-Bank uses a wide range of techniques to reduce credit risk inherent in its lending operations by managing both loss factors (such as individual transaction losses, probability of default, loss-driven default) and exposure to default as well as systemic risk drivers on a portfolio basis.

At the transaction level, an assessment of a borrower’s ability to service the proposed level of debt is performed. Alfa-Bank also obtains collateral, such as a mortgage, pledge of assets or floating charge over inventories. Various forms of legal protection are used, such as netting arrangements and covenants in commercial lending agreements, and credit enhancement techniques.

Credit exposure is actively managed. Procedures are in place that ensure timely identification and prompt response to transactions showing signs of deterioration. Responses include reduction of exposure, obtaining additional collateral, restructuring or other appropriate steps.

A credit risk premium is incorporated in risk assessment and lending decisions. The risk premium seeks to provide fair compensation for the amount of each credit risk assumed by Alfa-Bank.

At the portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) maturity concentration limit, (iv) unsecured lending limit and (v) internal rating limit. The latter two limits were non-obligatory but subject to monitoring and reporting in 2010.

The amount of Alfa-Bank’s maximum exposure to credit risk is reflected in the carrying value of its financial assets in the consolidated statement of financial position. For issued guarantees and other credit-related commitments, the amount of maximum credit risk equals the amount of commitment.

**Market Risk**

Alfa-Bank accepts market risk that arises from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

Alfa-Bank manages its market risk through notional-based and risk-based limits for its sub-positions. Alfa-Bank’s overall position is split between (i) Corporate and Retail Banking positions and (ii) Investment Banking position. The exposure of Corporate and Retail Banking operations to market risks is
managed through a system of limits monitored by the Treasury Department. The market risk exposure of Alfa-Bank’s Investment Banking operations is managed through value at risk (VaR) limits and extreme-loss limits, which are set for both the aggregated position of the Investment Bank in equities, fixed income, foreign currency and derivative instruments (treated as separate “trading desks”) and for individual trading desks.

Separate limits are established for corporations whose trading operations are performed through non-Moscow-located trading desks. In addition, sub-limits are set for exposures to various types of securities (including equity and debt securities) and markets and position limits for issuers and individual instruments. The limits on securities positions are approved by ALCO. Additional issuer limits on debt securities are subject to separate approval by the relevant Credit Committees.

Both Alfa-Bank’s proprietary and trading portfolios consist predominantly of liquid, traded securities. Alfa-Bank’s derivative operations are driven by two major factors: (i) the need to hedge its own risks, principally using foreign currency, securities and interest rate derivatives and (ii) customer demand.

Limits based on statistical measures of risk are monitored on a daily basis by the Risk Management Department with respect to individual trading desks (foreign currency, equity, bonds or derivatives). The overall VaR of Investment Banking is monitored on a weekly basis by the Risk Management Department. The limit for one-day, 99% confidence level VaR is $35m (2009: $15m). The use of this approach, however, does not prevent losses outside these limits in the event of more significant market movements.

In 2010, the following changes were made in market risk management: more frequent position limits review by ALCO and tightened restrictions on corporate exposures for fixed income desks, and the Collateral Department was set up to provide additional control over margin trading.

**Equity Price Risk**

As noted above, for the purpose of quantifying equity price risk that is attributed to Investment Banking position only, Alfa-Bank uses a VaR model.

The effectiveness of the VaR model is subject to back-test assessment. Back-testing compares the historical frequency of bigger-than-VaR losses and compares it with the set confidence level.

The major advantage of VaR risk assessment is its reliance on empirical data, but this is also its major drawback. Extreme market moves that may cause substantial deterioration of Alfa-Bank’s position have to be assessed. The resulting figures serve as a rough indicator of magnitude of a possible loss under the corresponding scenario. Alfa-Bank uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the bank’s overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.
The daily equity price VaR is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of Alfa-Bank were to be held unchanged for one business day.

**Currency Risk**

The Treasury Department of Alfa-Bank is responsible for centralized management of its currency risk. ALCO sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by the Treasury Department on the basis of management reports provided on the open currency position. Alfa-Bank uses derivatives to manage current and forecast exposures resulting from foreign currencies.

**Interest Rate Risk**

Alfa-Bank is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and debt securities issued at fixed or variable interest rates. Due to interest rate fluctuations, Alfa-Bank’s debt commitments may have disproportionately high interest rates compared with those of its assets and vice versa. One of Alfa-Bank’s objectives is to minimize losses from unexpected negative changes in interest rate margins.

Alfa-Bank’s interest rate risk is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Asset and Liability Management unit of the Treasury Department. ALCO sets sensitivity limits in terms of “present value to 100 basis points interest rate shift”, which measures the impact of a 100 basis points rise of interest rates along the various maturities on the yield curve on the present value of Alfa-Bank’s assets, liabilities and off-balance-sheet instruments. ALCO sets such limits for Alfa-Bank’s Russian RUR, US dollar, and euro positions and for Alfa-Bank’s overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies and interest rate derivatives, such as USD and RUR interest swaps.

In 2009, the Treasury Department implemented an additional interest rate risk assessment, “Earnings at risk of a 100 basis point interest rate shift,” to measure the impact on interest revenue for the next year of a 100 basis point rise in interest rates along the various maturities on the yield curve.

**Liquidity Risk**

Liquidity risk is defined as the risk that an entity encounters difficulty in meeting obligations associated with financial liabilities. Alfa-Bank is exposed to daily calls on its available cash resources from
overnight deposits, current accounts, maturing deposits, loan drawdowns, and from margin and other calls on financial instruments. Alfa-Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by Alfa-Bank’s Treasury Department and ALCO.

Alfa-Bank seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customers on deposits, debt securities in issue and due to other banks, and to maintain adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to any unforeseen liquidity requirements.

Alfa-Bank’s liquidity management requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratios against regulatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the Russian Central Bank.

These ratios are (i) instant liquidity ratio (N2), calculated as the ratio of highly liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; and (iii) long-term liquidity ratio (N4), calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities and builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks (including central banks) and other interbank facilities, to ensure that sufficient liquidity is maintained within Alfa-Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The Treasury Department runs liquidity forecast models on a daily basis. Different scenarios are tracked, including or disregarding projected new lending. Information on the level of delinquencies is regularly updated for liquidity forecast purposes. ALCO approved the increase of the limit for available-for-sale securities and liquidity cushion in 2009. The liquidity scenario was also revised to account for the higher probabilities of delays in payments under corporate and retail loans.
Corporate Governance Code

Corporate governance is vital for ensuring stability and successful operations on the financial market. In order to maintain high governance and business ethics standards, Alfa-Bank has adopted and adheres to its Corporate Governance Code.

The Code was developed on the basis of OECD Principles of Corporate Governance as of April 22, 2004, recommendations of the Basle Committee on Banking Supervision on Enhancing Corporate Governance in Banking Organizations (1999), the Federal Laws On Joint Stock Companies and On Banks and Banking, the Code of Conduct recommended for use by Federal Securities Market Commission instruction No. 421 of 4 April 2002 and the Charter of Alfa-Bank.

Corporate governance refers to the general management of Alfa-Bank by the General Meeting of Shareholders and the Board of Directors that includes the body of their relations with the executive bodies of Alfa-Bank and other stakeholders (employees, creditors, depositors, other customers, business partners, contractors, banking regulation and supervision agencies, government authorities and enforcement bodies) with regard to:

• defining strategic goals for Alfa-Bank’s operations and an efficient governance system,
• creating work incentives ensuring that the governing bodies of Alfa-Bank and its employees carry out all the necessary actions towards achieving the strategic goals of Alfa-Bank’s operations;
• balancing the interests of shareholders, members of the Board of Directors and executive bodies of Alfa-Bank as well as other stakeholders;
• ensuring compliance with the legislation of the Russian Federation, the Charter of Alfa-Bank, the Code of Corporate Ethics and other internal documents as well as professional ethics adopted by banking unions, associations and other self-regulating organizations.
All governing bodies and employees of Alfa-Bank acknowledge the importance of the Code and are
guided by its provisions in discharging their obligations to Alfa-Bank and its shareholders. Corporate
conduct is based on respecting the rights and lawful interests of its participants and fosters Alfa-Bank’s
efficient operation, financial stability and profitability.

With a view to improve its corporate governance system, Alfa-Bank declares its commitment to the
following basic principles of corporate governance:

- guarantee of shareholder rights and legal interests,
- efficient governance,
- distribution of authority between governing bodies and effective control,
- effective control over financial and business operations,
- ownership structure transparency and information openness,
- observance of laws and ethical standards,
- effective interaction with employees and fair remuneration,
- social responsibility and building partnership relations with stakeholders.

Alfa-Bank’s corporate governance structure secures a reasonable balance between its governing bod-
ies, divides powers and distributes the general management duties between shareholders and the
Board of Directors and operational management of Alfa-Bank carried out by executive bodies of Alfa-
Bank. Guided by the interests of its shareholders, creditors, customers, business partners and contrac-
tors, Alfa-Bank continuously monitors whether its operations comply with the provisions of the Code.
The Code is available from Alfa-Bank upon request.
ALFASTRAKHOVANIE GROUP


The consolidated authorized capital of AlfaStrakhovanie Group totals RUR8.5bn. The Group’s license enables it to offer over 100 insurance products, including life insurance and accident insurance products. The Group serves its customers through a network of 400 regional offices across the country.

AlfaStrakhovanie Group is accredited by the largest banks in Russia and cooperates with them by insuring the banks’ customers: Sberbank, VTB, VTB24, Gazprombank, Alfa-Bank, Raiffeisenbank, Bank of Moscow, MDM-Bank, UniCreditBank, Russian Agricultural Bank and many others.

In 2010, the Group’s net profit amounted to RUR510m, and premiums totaled RUR33.3bn.

Key Principles

AlfaStrakhovanie Group is a dependable, stable company. The Group reinsures its risks with the largest reinsurance companies in the world, such as Munich Re, Swiss Re, Hannover Re, SCOR, GenRe, Partner Re and Lloyd’s of London via Willis Limited, Marsh, AON Benfield and other international brokers.

According to Expert RA rating agency, AlfaStrakhovanie Group is one of the top-ten companies on the open insurance market. In January 2011, the Expert RA agency confirmed the Group’s A++ rating, the highest integrity rating, first assigned to AlfaStrakhovanie in 2003. Fitch Ratings raised AlfaStrakhovanie Group’s outlook to Stable and confirmed its A+(rus) national rating.
The Group is committed to improving its services and developing new insurance products to meet the individual needs of each customer. Recognition from market professionals validates the Group’s strategy. In 2010, the Group won the Financial Elite of Russia 2005-2010 award in the Customer Recognition category as the best company of the past five years.

Customers

The Group serves about 1.5 m private customers and more than 100,000 companies, including leading banks, large ship owners and carriers, the nuclear industry, metallurgy and machine-building companies, local offices of large foreign companies, and public and government institutions.

Awards

The senior managers of AlfaStrakhование have been ranked at the head of the distinguished Russia's Top 1,000 Managers, a joint project of the Association of Russian Managers and Kommersant Publishing House, in the following categories: CEO, CFO, CCO, Marketing Director, HR Director, IT Director, Public Relations Director and Corporate Relations Director.
AlfaStrakhovanie won SPEAR’S Russia Wealth Management Award 2010 in the category of Insurance Company of the Year.

AlfaStrakhovanie was named the winner of the Golden Chariot national public awards of the Russian transport industry in the category of Leading Insurer of Russian Carriers.

AlfaStrakhovanie ranked among the top Russian insurers by business reputation based on a survey carried out by ROMIR.

AlfaStrakhovanie Group topped the 2010 ranking of the fastest-developing companies in Russia’s financial sector prepared by Sekret Firmy magazine, which belongs to Kommersant Publishing House. On the list of the Top 200 fastest-developing Russian companies, AlfaStrakhovanie ranked tenth.

AlfaStrakhovanie won the GOScontract National State Procurement Award for the second time.

AlfaStrakhovanie won the VI Annual Car Dealer of 2010 Awards in the Insurance Company category. The award was presented during the XIII National Car Forum “Test for Survival of the Fittest in an Unstable Demand Environment”.

AlfaNEWS, the corporate publication of AlfaStrakhovanie Group, won the National Press Service of 2010 contest and was recognized as the best in the Corporate Media category.

Alfa-Capital Management Company

Alfa-Capital Management Company is a leader on the Russian asset management market and has been operating since 1996. Its main activities include the management of mutual funds, non-state pension funds, insurance companies, corporate assets, and individual trusts for large private investors. The Alfa-Capital brand is a symbol of high quality on the asset management market.

www.alfacapital.ru

2010: A Year of Consolidation

In 2010, the Company invested heavily in its business in line with its strategic objectives, expanded its product range, increased assets, improved risk management and its internal control system, developed its system for monitoring service quality, launched personnel training and recruitment activities, devised new motivational programs and engaged in marketing and promotion.

In 2010, Alfa-Capital continued to strengthen its position in private investor asset management, primarily focusing on customers earning over $100,000.

Over the course of the past year, the Company performed outstandingly in the individual trust management segment. Assets under management increased by more than RUR16.6bn.
The Company’s total assets under management at the end of 2010 amounted to RUR47.7bn, up 22%. 60% (RUR17.1bn) of the assets were owned by individuals, while 40% (RUR11.6bn) were owned by companies.

The Management Company generated RUR711.1m in proceeds and outperformed its targets for the year. Income exceeded the 2009 figure by 11%.

In addition, at the end of the year, Alfa-Capital was the leader on the Russian asset management market in terms of structured product sales to affluent customers. The number of trust accounts increased from 548 in December 2009 to 921 in December 2010, with the average investment per customer account amounting to RUR10m.

In terms of funds attracted to retail mutual funds, the Company moved into the black, with shareholders earning a profit at the beginning and in the middle of the year and managing to gain from the stock market growth in 2009-2010.

Alfa-Capital modified its product concept in 2010: customers were offered specific investment ideas rather than general investments in stock or commodity markets. We offered our customers over 20 attractive investment ideas with various risk/reward profiles. We also launched a range of international Folio security baskets.

As part of its development strategy, Alfa-Capital spun off its risk management function into a separate business structure: the Risk Analysis and Management Department.

In the second half of 2010, we also renewed the Alfa-Capital Management Company brand platform and ran a large-scale DOING MORE advertising campaign that was developed with the assistance of BBDO Russia Group.

Irina Krivosheeva, previously Alfa-Capital’s Deputy CEO and Executive Director, was appointed Chief Executive Officer of Alfa-Capital Management Company.

In 2010, the Alfa-Capital team was strengthened by the appointment of Alexander Spisivyy as Chief Financial Officer and Oleg Kesso as Head of Retail. Both are now also on the Company’s Management Board.

Alfa-Capital’s commitment to better personnel management after the crisis has materially improved the professionalism and loyalty of our staff. An annual employee survey at the end of 2010 indicated that more than 96% of the Company’s staff were completely satisfied with their working environments and jobs, 33% more than in 2009.

2011

Alfa-Capital’s new DOING MORE leadership philosophy involves improving both performance indicators and quality by implementing more efficient core business processes and new technology.

We will focus on strengthening our positions in the affluent customer segment, increasing activity in the retail sphere and strengthening our corporate and institutional customer business.
Our targets for 2011-2013 include increasing our share of the trust management market from 1.4% to 2.3% (by 64%) and our share of mutual funds to 11% (by 36%), and boosting total assets to RUR92.3bn.

**Market Recognition**

Last year, independent experts gave high marks to Alfa-Capital's operations, and the Company received the following ratings and awards:

- The National Rating Agency confirmed Alfa-Capital Management Company’s AAA Credit Rating (the highest rating).
- Expert RA Rating Agency reaffirmed the reliability and quality of services provided by Alfa-Capital Management Company by reaffirming an A++ rating (i.e. Extremely High/Highest Reliability and Quality of Services).
- Alfa-Capital won the Company of the Year national business award from RosBusinessConsulting as Management Company of the Year.
- Alfa-Capital won the Financial Elite of Russia national award, beating its competitors out for the title of Best Company in 5 Years.
- Alfa-Capital’s Multifamily Office (MFO), jointly with Skate’s Art Market Research, was chosen as the winner of the SPEAR’S Russia Wealth Management Awards, the only Russian private banking & wealth management award, as Art Adviser of the Year.

**Assets under Management of Alfa-Capital Management Company as of the End of 2010**

![Pie chart showing asset distribution](chart.png)

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

1 The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2010, the summary consolidated statement of comprehensive income, the summary consolidated statement of changes in equity and the summary consolidated statement of cash flows for the year then ended are derived from the audited consolidated financial statements of ABH Financial Limited and its subsidiaries (the “Group”) for the year ended 31 December 2010. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 6 April 2011. Those consolidated financial statements, and these summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.

2 The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards (“IFRS”). Reading the summary consolidated financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Group prepared in accordance with IFRS.

Management’s Responsibility for the Summary Financial Statements

3 Management is responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in Note “Basis for preparation”.

Auditor’s responsibility

4 Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 “Engagements to Report on Summary Financial Statements.”

Opinion

5 In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the Group for the year ended 31 December 2010 are consistent, in all material respects, with those consolidated financial statements, on the basis described in Note “Basis for preparation”.

27 April 2011
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit, White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
Telephone +7 (495) 967 6000, Fax +7 (495) 967 6001, www.pwc.ru
### ABH Financial Limited
### Summary Consolidated Statement of Financial Position

**In millions of US Dollars**

<table>
<thead>
<tr>
<th></th>
<th>31 December 2010</th>
<th>31 December 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3 182</td>
<td>1 966</td>
</tr>
<tr>
<td>Mandatory cash balances with central banks</td>
<td>189</td>
<td>150</td>
</tr>
<tr>
<td>Trading securities</td>
<td>1 426</td>
<td>1 372</td>
</tr>
<tr>
<td>Repurchase receivables relating to trading securities</td>
<td>914</td>
<td>-</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>2 754</td>
<td>2 270</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>16 795</td>
<td>13 449</td>
</tr>
<tr>
<td>Investments</td>
<td>2 108</td>
<td>1 508</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>474</td>
<td>251</td>
</tr>
<tr>
<td>Other assets</td>
<td>287</td>
<td>277</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>304</td>
<td>366</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>45</td>
<td>37</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>28 478</strong></td>
<td><strong>21 646</strong></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other banks</td>
<td>2 097</td>
<td>1 108</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>16 812</td>
<td>13 686</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>4 107</td>
<td>1 565</td>
</tr>
<tr>
<td>Syndicated and other debt</td>
<td>190</td>
<td>295</td>
</tr>
<tr>
<td>Subordinated debt</td>
<td>1 395</td>
<td>1 747</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>332</td>
<td>322</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>327</td>
<td>123</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>139</td>
<td>102</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>25 399</strong></td>
<td><strong>18 948</strong></td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>1 265</td>
<td>1 265</td>
</tr>
<tr>
<td>Fair value reserve for investments available for sale</td>
<td>55</td>
<td>54</td>
</tr>
<tr>
<td>Revaluation reserve for premises</td>
<td>30</td>
<td>33</td>
</tr>
<tr>
<td>Cumulative translation reserve</td>
<td>(331)</td>
<td>(304)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>2 060</td>
<td>1 647</td>
</tr>
<tr>
<td><strong>Net assets attributable to the Company’s owners</strong></td>
<td><strong>3 079</strong></td>
<td><strong>2 695</strong></td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td><strong>3 079</strong></td>
<td><strong>2 698</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td><strong>28 478</strong></td>
<td><strong>21 646</strong></td>
</tr>
</tbody>
</table>

The consolidated financial statements, from which the summarised consolidated financial statements have been derived, are available from ABH Financial Limited upon request.
### ABH Financial Limited
#### Summary Consolidated Statement of Comprehensive Income

<table>
<thead>
<tr>
<th>In millions of US Dollars</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>2 320</td>
<td>2 519</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(972)</td>
<td>(1 403)</td>
</tr>
<tr>
<td>Expenses directly attributable to leasing and deposit insurance</td>
<td>(41)</td>
<td>(41)</td>
</tr>
<tr>
<td><strong>Net margin</strong></td>
<td><strong>1 307</strong></td>
<td><strong>1 075</strong></td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>(370)</td>
<td>(589)</td>
</tr>
<tr>
<td><strong>Net margin after provision for loan impairment</strong></td>
<td><strong>937</strong></td>
<td><strong>486</strong></td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>436</td>
<td>339</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>(119)</td>
<td>(84)</td>
</tr>
<tr>
<td>Gains less losses arising from trading securities</td>
<td>70</td>
<td>173</td>
</tr>
<tr>
<td>Gains less losses arising from interest based derivatives</td>
<td>(15)</td>
<td>(118)</td>
</tr>
<tr>
<td>Gains less losses arising from foreign currencies and precious metals</td>
<td>57</td>
<td>(51)</td>
</tr>
<tr>
<td>Gains less losses arising from investments</td>
<td>87</td>
<td>3</td>
</tr>
<tr>
<td>Gains arising from acquisition of own debts</td>
<td>(5)</td>
<td>49</td>
</tr>
<tr>
<td>Other provisions</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Loss of disposal of subsidiaries</td>
<td>-</td>
<td>(5)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>82</td>
<td>80</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(842)</td>
<td>(747)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td><strong>700</strong></td>
<td><strong>124</strong></td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(147)</td>
<td>(47)</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td><strong>553</strong></td>
<td><strong>77</strong></td>
</tr>
</tbody>
</table>

#### Other comprehensive income:
- **Available for sale investments:**
  - Fair value gains less losses during the year | 52     | 85    |
  - Reclassification adjustments for losses included in profit or loss | (54)  | 33    |
  - Revaluation of premises and equipment | 4     | (19)  |
  - Effect of translation of the financial statements of foreign operations | (41)  | (6)   |
  - Net change in hedge of net investment in foreign operations | 14    | 61    |
  - Income tax recorded directly in other comprehensive income | 3     | (15)  |
- **Other comprehensive (loss)/income for the year** | **(22)** | **139** |

#### Total comprehensive income for the year | **531** | **216** |

#### Profit is attributable to:
- The Company’s owners | **550** | **88** |
- Non-controlling interests | 3 | (11) |

#### Profit for the year | **553** | **77** |

#### Total comprehensive income is attributable to:
- The Company’s owners | **528** | **227** |
- Non-controlling interests | 3 | (11) |

#### Total comprehensive income for the year | **531** | **216** |

---

The consolidated financial statements, from which the summarised consolidated financial statements have been derived, are available from ABH Financial Limited upon request.
## ABH Financial Limited

### Summary Consolidated Statement of Changes in Equity

<table>
<thead>
<tr>
<th></th>
<th>Share capital</th>
<th>Fair value reserve for investments available for sale</th>
<th>Revaluation reserve for premises and equipment</th>
<th>Cumulative translation reserve</th>
<th>Retained earnings</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as at 1 January 2009</strong></td>
<td>945</td>
<td>(45)</td>
<td>53</td>
<td>(359)</td>
<td>1 554</td>
<td>2 148</td>
<td>14</td>
<td>2 162</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>-</td>
<td>99</td>
<td>(15)</td>
<td>55</td>
<td>88</td>
<td>227</td>
<td>(11)</td>
<td>216</td>
</tr>
<tr>
<td><strong>Realised revaluation reserve</strong></td>
<td>-</td>
<td>-</td>
<td>(5)</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Share capital contribution</strong></td>
<td>320</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>320</td>
<td>-</td>
<td>320</td>
</tr>
<tr>
<td><strong>Balance as at 31 December 2009</strong></td>
<td>1 265</td>
<td>54</td>
<td>33</td>
<td>(304)</td>
<td>1 647</td>
<td>2 695</td>
<td>3</td>
<td>2 698</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>(27)</td>
<td>550</td>
<td>528</td>
<td>3</td>
<td>531</td>
</tr>
<tr>
<td><strong>Realised revaluation reserve</strong></td>
<td>-</td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Dividends declared</strong></td>
<td>-</td>
<td>-</td>
<td>(150)</td>
<td>(150)</td>
<td>-</td>
<td>(150)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Acquisition of non-controlling interest</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>6</td>
<td>(6)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance as at 31 December 2010</strong></td>
<td>1 265</td>
<td>55</td>
<td>30</td>
<td>(331)</td>
<td>2 060</td>
<td>3 079</td>
<td>-</td>
<td>3 079</td>
</tr>
</tbody>
</table>

The consolidated financial statements, from which the summarised consolidated financial statements have been derived, are available from ABH Financial Limited upon request.
## ABH Financial Limited
Summary Consolidated Statement of Cash Flows

### In millions of US Dollars

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>2,254</td>
<td>2,448</td>
</tr>
<tr>
<td>Interest paid, other than on debt securities issued, syndicated and other debt and on subordinated debt</td>
<td>(606)</td>
<td>(1,222)</td>
</tr>
<tr>
<td>Expense directly attributable to the lending operations</td>
<td>(39)</td>
<td>(42)</td>
</tr>
<tr>
<td>Fees and commissions received</td>
<td>428</td>
<td>354</td>
</tr>
<tr>
<td>Fees and commissions paid</td>
<td>(121)</td>
<td>(87)</td>
</tr>
<tr>
<td>Net income received from trading securities</td>
<td>80</td>
<td>240</td>
</tr>
<tr>
<td>Net income received from trading in foreign currencies</td>
<td>(196)</td>
<td>228</td>
</tr>
<tr>
<td>Net income received from interest rate derivatives</td>
<td>(22)</td>
<td>48</td>
</tr>
<tr>
<td>Other operating income received</td>
<td>71</td>
<td>95</td>
</tr>
<tr>
<td>Staff costs paid</td>
<td>(438)</td>
<td>(360)</td>
</tr>
<tr>
<td>Other operating expenses paid</td>
<td>(283)</td>
<td>(289)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(193)</td>
<td>(25)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities before changes in operating assets and liabilities</strong></td>
<td>935</td>
<td>1,388</td>
</tr>
<tr>
<td><strong>Changes in operating assets and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in mandatory cash balances with central banks</td>
<td>(43)</td>
<td>(71)</td>
</tr>
<tr>
<td>Net increase in trading securities and repurchase receivables</td>
<td>(1,025)</td>
<td>(586)</td>
</tr>
<tr>
<td>Net increase in due from other banks</td>
<td>(502)</td>
<td>(510)</td>
</tr>
<tr>
<td>Net (increase)/ decrease in loans and advances to customers</td>
<td>(3,706)</td>
<td>3,628</td>
</tr>
<tr>
<td>Net (increase)/ decrease in other assets and other financial assets</td>
<td>(20)</td>
<td>102</td>
</tr>
<tr>
<td>Net increase/(decrease) in due to other banks</td>
<td>1,010</td>
<td>(5,980)</td>
</tr>
<tr>
<td>Net increase in customer accounts</td>
<td>3,381</td>
<td>1,432</td>
</tr>
<tr>
<td>Net decrease in other liabilities and other financial liabilities</td>
<td>(65)</td>
<td>(127)</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td>(35)</td>
<td>(724)</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of investments available for sale</td>
<td>(795)</td>
<td>(1,161)</td>
</tr>
<tr>
<td>Proceeds from disposal of investments available for sale</td>
<td>509</td>
<td>337</td>
</tr>
<tr>
<td>Acquisition of investments at fair value through profit and loss</td>
<td>(11)</td>
<td>(10)</td>
</tr>
<tr>
<td>Disposal of investments at fair value through profit and loss</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>Acquisition of investments held to maturity</td>
<td>(411)</td>
<td>-</td>
</tr>
<tr>
<td>Transaction</td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Proceeds from disposal of investments held to maturity</td>
<td>93</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of premises, equipment and intangible assets</td>
<td>(61)</td>
<td>(65)</td>
</tr>
<tr>
<td>Proceeds from disposal of premises, equipment and intangible assets</td>
<td>31</td>
<td>18</td>
</tr>
<tr>
<td>Proceeds from disposal of subsidiaries, net of cash disposed of</td>
<td>-</td>
<td>(60)</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

**Net cash used in investing activities**

<table>
<thead>
<tr>
<th>Transaction</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from disposal of investments held to maturity</td>
<td>93</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of premises, equipment and intangible assets</td>
<td>(61)</td>
<td>(65)</td>
</tr>
<tr>
<td>Proceeds from disposal of premises, equipment and intangible assets</td>
<td>31</td>
<td>18</td>
</tr>
<tr>
<td>Proceeds from disposal of subsidiaries, net of cash disposed of</td>
<td>-</td>
<td>(60)</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

**Cash flows from financing activities**

<table>
<thead>
<tr>
<th>Transaction</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital contribution</td>
<td>-</td>
<td>320</td>
</tr>
<tr>
<td>Repayment of syndicated and other debt</td>
<td>(99)</td>
<td>(749)</td>
</tr>
<tr>
<td>Interest paid on syndicated and other debt</td>
<td>(13)</td>
<td>(22)</td>
</tr>
<tr>
<td>Proceeds from debt securities issued</td>
<td>3 260</td>
<td>538</td>
</tr>
<tr>
<td>Repayment of debt securities issued</td>
<td>(759)</td>
<td>(1 384)</td>
</tr>
<tr>
<td>Interest paid on debt securities in issue</td>
<td>(166)</td>
<td>(155)</td>
</tr>
<tr>
<td>Proceeds from subordinated debt</td>
<td>-</td>
<td>1 308</td>
</tr>
<tr>
<td>Repayment of subordinated debt</td>
<td>(185)</td>
<td>(18)</td>
</tr>
<tr>
<td>Interest paid on subordinated debt</td>
<td>(116)</td>
<td>(72)</td>
</tr>
</tbody>
</table>

**Net cash from/(used in) financing activities**

<table>
<thead>
<tr>
<th>Transaction</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from disposal of investments held to maturity</td>
<td>93</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of premises, equipment and intangible assets</td>
<td>(61)</td>
<td>(65)</td>
</tr>
<tr>
<td>Proceeds from disposal of premises, equipment and intangible assets</td>
<td>31</td>
<td>18</td>
</tr>
<tr>
<td>Proceeds from disposal of subsidiaries, net of cash disposed of</td>
<td>-</td>
<td>(60)</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>1</td>
<td>1</td>
</tr>
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**Net cash used in investing activities**

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**Cash flows from financing activities**

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<thead>
<tr>
<th>Transaction</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital contribution</td>
<td>-</td>
<td>320</td>
</tr>
<tr>
<td>Repayment of syndicated and other debt</td>
<td>(99)</td>
<td>(749)</td>
</tr>
<tr>
<td>Interest paid on syndicated and other debt</td>
<td>(13)</td>
<td>(22)</td>
</tr>
<tr>
<td>Proceeds from debt securities issued</td>
<td>3 260</td>
<td>538</td>
</tr>
<tr>
<td>Repayment of debt securities issued</td>
<td>(759)</td>
<td>(1 384)</td>
</tr>
<tr>
<td>Interest paid on debt securities in issue</td>
<td>(166)</td>
<td>(155)</td>
</tr>
<tr>
<td>Proceeds from subordinated debt</td>
<td>-</td>
<td>1 308</td>
</tr>
<tr>
<td>Repayment of subordinated debt</td>
<td>(185)</td>
<td>(18)</td>
</tr>
<tr>
<td>Interest paid on subordinated debt</td>
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**Net cash from/(used in) financing activities**

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**Net increase/(decrease) in cash and cash equivalents**

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

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

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**ABH Financial Limited**

**Note to the Summary Consolidated Financial Statements**

**Basis for preparation**

These summary consolidated financial statements of ABH Financial Limited and its subsidiaries (the “Group”) have been prepared by extraction, without any modification, of the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows from the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements, from which the summary consolidated financial statements have been derived, are available from ABH Financial Limited upon request at Themistokli Dervi, 5, Elenion Building, 2nd floor, P.C. 1066, Nicosia, Cyprus.

The consolidated financial statements, from which the summarised consolidated financial statements have been derived, are available from ABH Financial Limited upon request.
Corporate Directory

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