<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>countries</td>
<td>5</td>
</tr>
<tr>
<td>branches and offices</td>
<td>511</td>
</tr>
<tr>
<td>employees</td>
<td>21 238</td>
</tr>
<tr>
<td>corporate clients</td>
<td>82 000</td>
</tr>
<tr>
<td>retail clients</td>
<td>8,9 mln</td>
</tr>
<tr>
<td>profit, USD million*</td>
<td>829</td>
</tr>
<tr>
<td>equity, USD million*</td>
<td>4 151</td>
</tr>
<tr>
<td>loan portfolio, USD million*</td>
<td>31 825</td>
</tr>
<tr>
<td>total assets, USD million*</td>
<td>45 932</td>
</tr>
</tbody>
</table>

* For the purposes of this report, the term «Alfa-Bank» is used to describe ABH Financial Limited and its subsidiaries.
ALFA-BANK’S AWARDS IN 2012

12.2012
Alfa-Bank named Best Retail Bank and the leader in customer service
Alfa-Bank was named Best Retail Bank by RETAIL FINANCE AWARDS and took first place in customer service.

12.2012
Standard & Poor’s Ratings Services raised its long-term issuer credit rating on Alfa-Bank
In December 2012, Standard & Poor’s Ratings Services raised its long-term issuer credit rating on Alfa-Bank to BB+, Stable outlook, from BB, Stable outlook, and affirmed its short-term rating at B. The agency also raised its Russian national-scale rating on Alfa-Bank to ruAA+ from ruAA.

11.2012
Alfa-Bank received the Runet Prize
Alfa-Bank received a prestigious award for contribution to developing the Russian Internet — the Runet Prize. The Bank was recognized as the best in the Economy, Business and Investments category for improving Internet banking transactions.

11.2012
Alfa-Bank won the Big Money Annual Prize
Alfa-Bank won the annual Big Money award established by the magazine Itogi in the Achievement of the Year category. Awards in different categories were presented at the Banker’s Day event held by the magazine and Fitch Ratings together with the Russian Union of Industrialists and Entrepreneurs.

11.2012
Alfa-Bank received SPEAR’S Russia Wealth Management Awards 2012
Alfa-Bank won the first Russian Annual Award in private banking & wealth management: SPEAR’S Russia Wealth Management Awards 2012. Alfa-Bank was named the Best Russian Bank Offering Services in Private Banking and Large Capital Management category.

10.2012
Alfa-Bank Named the Leader Among Russian Banks by EPSI Rating
Alfa-Bank showed the biggest improvement in service quality. According to the EPSI Rating (European Performance Satisfaction Index), Alfa-Bank’s satisfaction index among Russian banks in 2012 grew by 8.7% to 82.2 points thanks to an improved reputation and increased quality of its banking products and services.

08.2012
Alfa-Bank received the Elite Quality Recognition Award from JPMorgan Chase
Alfa-Bank received the Elite Quality Recognition Award from JPMorgan Chase for providing high-quality international settlement services in 2006–2011. Alfa-Bank was among the best financial institutions selected by JPMorgan Chase from among more than 6,000 correspondent banks worldwide.
07.2012
Alfa-Bank given Investment Rating
Fitch Ratings, an international rating agency, raised
Alfa-Bank’s issuer rating from “BB+” to “BBB-”,
Stable outlook, an investment-grade rating.

07.2012
Alfa-Bank received the Visa Award for its perfor-
mance in 2011
Alfa-Bank received an award from the Visa Com-
pany for quality customer service in the Highest
International Level of Debit Cards Issuer Endor-
sement category based on its performance in 2011.
The purpose of the Visa Award is to recognize the
achievements of issuers and processing compa-
nies. The Visa Company has been giving awards
for quality customer service since 1992.

06.2012
Alfa-Bank recognized as the Best Retail Bank by
Customer Experience
Alfa-Bank took the top slot in the survey of retail
banks in Russia, Customer Opinion Index —
2012: Best Way to Attract Customers, conducted
by Sentec. Alfa-Bank has received high ratings in
this survey since 2007, and it was the fifth time it
was awarded the No. 1 position.

04.2012
Alfa-Bank’s National Press Service recognized as
the Best in Russia
Alfa-Bank’s National Press Service was named the
winner in the Press Service of the Year category at
the 4th Russian National Press Service Competi-
tion 2011 organized for PR professionals by the
Image Media Publishing House and Press Service
magazine.

03.2012
Alfa-Navigator journal for Alfa-Bank’s employees
won the Russian National Contest of Corporate
Mass Media
Alfa-Bank won the Annual Russian National
Contest of the Best Corporate Media of Russia —
2012. Alfa-Navigator — a journal for Alfa-Bank’s
employees — won in the main category, Corporate
Media: In-Company Journal.

01.2012
Alfa-Bank recognized as the Private Bank with
the Highest Mass Media Quotation Index in 2011
Alfa-Bank ranked among the leaders of the 2011
media rating of Russian banks conducted by
Medialogia Company. Alfa-Bank won first place
among Russian private banks with the best mass
media coverage in 2011 (fourth place following
the state banks) and retained its positions as
compared to 2010.
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board of Directors report on Alfa-Bank’s results in its priority business areas</td>
<td>6</td>
</tr>
<tr>
<td>Board of Directors and Executive Board</td>
<td>10</td>
</tr>
<tr>
<td>Message from Chief Executive Officer</td>
<td>12</td>
</tr>
<tr>
<td>Russian Economy and Banking Sector Overview</td>
<td>18</td>
</tr>
<tr>
<td>Corporate-Investment Banking</td>
<td>28</td>
</tr>
</tbody>
</table>
We are happy to present Alfa-Bank’s annual report for 2012. In summing up the past year, we would like to emphasize that it was one of great success and new achievements for Alfa-Bank. We enjoyed rapid growth in our client base in both the Corporate-Investment and Retail businesses, increased market share in all priority areas, mastery of market trends and continuous improvement in the quality of our services. All of this was the result of a daily concerted effort that has allowed us to achieve new goals year after year, solidifying Alfa’s position as Russia’s leading private bank.

Last year Alfa-Bank implemented the first phase of its long-term development strategy, approved in 2011. Today, we can say with confidence that the strategy developed by our management team has proven effective, as evidenced by Alfa-Bank’s 2012 financial results. One of the strategy’s key elements is the development of a customer service model whereby Alfa-Bank acts as a financial advisor and partner for each company and individual using our services. Thanks to our comprehensive system for analyzing and sharing information, Alfa-Bank not only meets its customers’ current needs, but is also capable of looking forward, offering customers promising solutions and products. This approach to customer service is one of Alfa-Bank’s competitive strengths and something we worked hard to develop in 2012, along with our technological advantages over our competitors and uniformly high quality of service at any location in the country.

Further evidence of the strategic success of Alfa-Bank over its entire history came in the form of an important event that took place last year, when Alfa-Bank became the first Russian private bank to be assigned an investment-grade rating by leading international agency Fitch Ratings. All of this is the result of skillful strategic planning on the part of Alfa-Bank’s management, as well as the daily efforts of our team. The credit for this achievement belongs to Alfa-Bank as a whole, as well as to each of our employees.

One element of Alfa-Bank’s strategy is investing in our employees. We took vital steps in this direction last year, adding new professionals to our team and creating a new system of employee incentives and career development. The key to Alfa-Bank’s success and its competitive strengths is the effort of its employees as a unified team. This advantage will only grow in the coming year.

Last year’s financial results are the best possible evidence that we are on the right course. Retail, Corporate and Investment banking achieved all of the targets set by management, while the results in priority sectors surpassed the planned results. The Corporate and Investment Bank significantly increased its market share in the corporate lending segment, a promising market that grew rapidly last year.
In addition, Alfa-Bank not only added to the ranks of its customers from amongst large and medium-sized companies, but was also highly successful in working with small businesses. Today, we can offer these clients a unique combination of an attractive product range, convenient technological platform, and specially designed set of additional services that facilitate the work of small companies.

The Retail Bank also achieved excellent results over the past year. Working successfully with current customers and taking on new ones allowed us to increase the number of individuals using Alfa-Bank to meet their daily financial needs. Today, Alfa-Bank is the «home bank» of more than 8.9 million people. We also note that the Retail Bank achieved significant growth across all key indicators, including the volume of retail demand deposits and the retail loan portfolio, while the personal installment loan and credit card loan portfolio nearly doubled. Alfa-Bank’s customers enjoy additional benefits not only from the products offered, but also from the opportunity to take advantage of cutting-edge technological solutions. And, of course, our customers continue to receive high-quality services — Alfa-Bank’s consistently high level of service in the past year was once again recognized with several awards, including being named Russia’s best bank in terms of customer experience for a fifth year.

As one of Russia’s leading financial institutions, Alfa-Bank puts special emphasis on social and charitable activities, supporting cultural projects and providing assistance to those in need. Our charitable initiatives include helping seriously ill children through the Lifeline Foundation, numerous volunteer projects in which Alfa-Bank employees play an active part, co-operating with the World Wildlife Fund (WWF), and a variety of educational programs for talented youth. Alfa-Bank’s cultural projects including organizing tours by international stars and popular Russian performers to all corners of our country, as well as supporting a variety of creative initiatives in Russian literature and the arts.

And of course, Alfa-Bank pays special attention to its customers. Our product line is determined by their needs and desires, with technological solutions that give individuals and organizations access to high-quality banking services that make working with Alfa-Bank not only convenient, but enjoyable too. We are very appreciative of the feedback we receive from our customers. This is what allows us to look at our business through the eyes of those for whom our thousands of employees start their working day, those who have entrusted us with managing their money, those who see Alfa-Bank as a reliable financial partner. Each day, we work to increase the number of those people.
511 branches and offices, 21,238 employees, 82,000 corporate clients, 8.9 retail clients, 
829 USD million profit, 4,151 USD million equity, 31,825 USD million loan portfolio, 45,932 USD million total assets.

Members of the Board of Directors:
- Ildar Karimov
- Andrei Sokolov
- Ruslan Khovesyuk
- Mikhail Fridman

Igor Kolomeisky
Member of the Executive Board, Head of Investment Business, Corporate & Investment Bank

Sergey Vasiliev
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
Board of Directors and Executive Board

Petr Aven  
Member of the Board of Directors

Alexey Marey  
Chief Executive Officer, Member of the Board of Directors, Member of the Executive Board

Alexey Korovin  
Member of the Executive Board, Head of Retail Business

Oleg Sysoev  
First Deputy Chairman of the Board of Directors

Maxim Pershin  
Member of the Executive Board

Edward Kaufman  
Member of the Board of Directors

Vladimir Tatarchuk  
First Deputy Chairman of the Executive Board

Petr Smida  
Chairman of the Board of Directors
MESSAGE FROM CHIEF EXECUTIVE OFFICER

Evaluating last year’s results, we can say with confidence that we completed another successful step in developing Alfa-Bank’s business. The excellent performance of the Corporate-Investment and Retail Bank, the successful launch of Alfa-Bank’s Strategy, approved the year before, thorough analytical work and carefully considered personnel policies — these were the features that characterized 2012. Most importantly, it was another year in which Alfa-Bank’s results showed improvement over the year before.

One of the goals set last year by Alfa-Bank management for all departments was to implement a strategy identifying the main operational areas for the next five years. Today, we can say with confidence that this task has been completed. Progressive implementation of the strategy and steady movement towards its goals enabled Alfa-Bank to make significant progress in all of its priority areas of operation. The Strategy was a natural continuation of the systematic approach to operational planning typical throughout the twenty-year history of Alfa-Bank. The successes of the past year, as well as earlier achievements, were never accidental: they were the result of the sound business development policy which Alfa-Bank always follows.

This approach to business development has enabled Alfa-Bank to become the first private Russian bank to receive an investment-grade rating from Fitch, one of the leading international rating agencies. This recognition reflects not only the success of the current team, but also Alfa-Bank’s strategic success throughout its history. The rating agency noted the improving quality of Alfa-Bank’s loan portfolio, its highly professional system of risk management, sustainable funding base and the steady growth of the customer base. Much of this success was possible thanks to Alfa-Bank’s consistent development model, which aims to add value to banking services for its customers.
In the past year, Alfa-Bank’s team has been joined by seasoned professionals who will help lead the Bank to ever-greater success. Robert Karreman was appointed Chief Risk Officer, Michael Lawrence was hired to head up the Treasury unit, and John Traynor came on board as Head of Transaction Banking. A further key development was the appointment of Martin Piletsky as Head of the Information Technology department. We are confident that each of the new players on the Alfa-Bank team will contribute to developing Alfa-Bank’s competitive strengths, making use of their wealth of experience and superb qualifications.

We also note the 2012 appointment of a new Human Resources Director: Shlomit Gruman-Navot. Crucially, she joined our team at the same time as the launch of Alfa-Bank’s Strategy, which calls for actively engaging employees in achieving both the Bank’s and their own professional targets. Shlomit has extensive experience in personnel management at foreign companies and brings global best practices with her to Alfa. As part of Alfa-Bank’s strategy last year, we took important steps to establish a new system of employee incentives and a career development model.

Its unique attitude to its employees is one of Alfa-Bank’s vital competitive advantages. For Alfa-Bank management, people are not merely raw materials, but human capital. A manager’s path to success depends upon the achievements of his colleagues, and the keystone to success for Alfa-Bank as a whole is steady work as part of a unified team. The task of managers is to achieve results by developing their people, keeping them abreast of what is happening at Alfa-Bank and helping them feel they are part of a team. The excellent results achieved in recent years show that this personnel policy works and lies at the heart of achieving success. Another important element of Alfa-Bank’s development strategy is focusing on the customer and his or her needs and wishes. This is the key to the long-term success of our business, and we are certain that interacting with customers in a way that is convenient for them is vital to our successful operations. That is the Alfa-Bank way of doing things — we do not sell specific financial products; rather, we provide our customers with convenient, contemporary solutions that not only meet their current banking needs, but also anticipate future needs and expectations. In order to
make the right decision, we study the world around us. We constantly look at ourselves through the eyes of our customers, listening to the opinions of those who choose Alfa-Bank as their «home» bank. This is why we make a special effort to obtain feedback on our work, both through Alfa-Bank's branches, as well as with the help of cutting-edge communications channels, like social networks. «The Bank through the Eyes of the Customer» is Alfa-Bank's motto for 2013.

Priorities such as these in Alfa-Bank's operations, along with its systematic approach to operational planning, lead to excellent results. For example, the number of customers of both the Retail and the Corporate and Investment Bank increased yet again. After all, for any bank, the number of people choosing it as a permanent financial partner is one of the most important indicators of success. In 2012, the number of customers in the retail segment increased by several million, the number of mass business customers increased by more than twenty thousand, and a number of major companies — leaders in their respective fields — signed up for Alfa-Bank's corporate banking services.

It is worth noting that Alfa-Bank was able to significantly increase its market share in all of its priority operational areas. This applies equally to corporate and retail lending, as well to “on-demand” deposits. In terms of absolute growth in this indicator, Alfa-Bank took second place in Russia, ahead of many financial institutions with broader distribution networks, and second only to Sberbank, the country's largest bank.

We consider the operations of the Corporate and Investment Bank an undisputed success. First, we note the significant increase in profit before tax of approximately 32.0%. This is a very high figure for a financial institution as large as Alfa-Bank. The corporate lending segment saw its loan portfolio grow by 33.1% in dollar terms compared with the market average of 21.5%, with a simultaneous increase in interest income. Nor can we ignore the progress in the field of transactional banking, hived off last year as a separate unit: in fact, last year, Alfa-Bank won the Elite Quality Recognition Award for quality of international payments. The focus on working with small companies — a priority for the Corporate and Investment Bank for the second year running — is yielding excellent results, with the number of mass corporate segment customers increasing by 65% over the past year and revenue from commissions growing by 53%. In addition, the average monthly balance of demand customer accounts in mass corporate segment nearly doubled.

The Retail Bank also chalked up some significant achievements last year. The number of Alfa-Bank's active customers reached 8.9 mln. Market share in the individual lending segment increased from 2.0% to 2.3%, with the loan portfolio growing by 68.7%, or by more than one and a half times. Alfa-Bank's personal instalment loans and credit cards loan portfolio more than doubled, well above the market
average. The extraordinary success achieved in credit card segment in 2012 made Alfa-Bank one of the top seven players in this market.

Alfa-Bank has always paid special attention to improving the customer experience, and this area remained in focus in 2012. Alfa-Bank’s achievements were not only appreciated by its customers, but also by independent professional organizations. Alfa-Bank once again received important awards for the high quality of its customer service. It was recognized as the best retail bank, taking first place in the customer service ranking at the annual RETAIL FINANCE AWARDS ceremony and topped the retail bank rating in the «Customer Experience Index — 2012: Searching for the Best Path to Attractiveness in the Eyes of Customers» for the fifth time. It also took first place in the EPSI rating of Russian banks for consumer satisfaction.

The business world is changing very rapidly, and it is very important for Alfa-Bank to continually adapt to the demands of the financial market. In our lightning-fast digital age, it is crucial to be able to find in short order a solution to any problem that is optimal for both Alfa-Bank and its customers. Alfa-Bank places great emphasis on continuously upgrading its banking services, in line with the market's latest demands and the wishes of its clients. Moreover, one key trait of Alfa-Bank's managers is their aversion to standing pat; rather, they make a constant effort to find solutions to new problems while continuously honing their professional skills. Their commitment to continuous development is the key to long-term success in today's financial world, and this commitment is part of the corporate culture at Alfa-Bank. Similarly vital is the commitment of Alfa-Bank and its employees to the values that define its operational strategy: we strive to be leaders, think like businesspeople, develop continually, value our customers and work as a team. As Russia's leading private bank, Alfa-Bank truly does think like an entrepreneur, acting efficiently and decisively while bringing flexibility to its customer relationships, which is an undisputed competitive advantage over the partially state-owned banks.

Alfa-Bank’s leading position in the field of information technology is further evidence of its efficiency. This is one of Alfa-Bank’s permanent competitive advantages, which came to the fore in 2012. Alfa-Bank is always there for the customer, close at hand. Our clients need not come to the branch to take advantage of our high-quality banking services thanks to the continuous improvement of our remote services, for example, by developing the best mobile banking applications available today. Currently, Alfa-Bank holds an approximately 17% market share in mobile banking, leading the sector. The Alfa-Click online banking platform received a special Runet award last year as the top online bank.

In assessing the outlook for the banking sector in the near future, we note that financial markets anticipate certain changes, primarily related to increased regulation and the introduction of new standards for banking
regulation adopted by the Basel Committee on Banking Supervision. These changes are likely to lead to market consolidation and growth in business volumes for the major players, including Alfa-Bank, which is yet another component of its long-term success.

In 2013, Alfa-Bank will continue to implement its development strategy, working actively in all of its priority areas. Therefore, we will continue to improve our technological solutions for the corporate sector in order to ensure that Alfa-Bank can meet the needs of companies of any size. As for retail banking, we plan to continue growing our customer base faster than the market average. In the area of lending, our key tasks include adapting the distribution models and formats for Alfa-Bank products and services, as well as further improving the quality of our customer experience. We plan to further increase our market share in mass corporate segment, grow our customer base, improve the quality of our banking processes and expand Alfa-Bank’s value-added services, such as electronic accounting, personal manager and legal support. In addition, Alfa-Bank will reinforce its position as the leader in the Internet, acquiring market share in mobile commerce, Internet banking and mobile banking.

Finally, Alfa-Bank will develop its key competitive advantages, such as adaptability, response time, and most importantly, the ability to look at the business through the eyes of the customer. These make up the foundation of our success in the long term, a success that will be achieved by our talented and motivated employees united by a common idea: the desire to achieve results and a willingness to work as a team to accomplish more and more every day.
We note the significant increase in profit before tax of the Corporate and Investment Bank of approximately 32.0%. This is a very high figure for a financial institution as large as Alfa-Bank.

The corporate lending segment saw its loan portfolio grow by 33.1% in dollar terms compared with the market average of 21.5%, with a simultaneous increase in interest income.
RUSSIAN ECONOMY AND BANKING SECTOR OVERVIEW

Global backdrop

In 2012, the situation in Europe remained in focus. Political instability and continuing economic deterioration in Greece had markets concerned the country would exit the Eurozone. The deterioration of Spanish banks’ finances drove capital flight from European assets, led to a sharp increase in sovereign bond yields not only in Spain but also in other troubled European countries, and heightened the risk that the banking crisis would turn into a budget crisis. The spread of risk called for unprecedented support measures from the ECB. In late summer 2012, the central bank declared that it was ready to initiate a program of unrestricted government bond purchases from the secondary market (Outright Monetary Transactions), which quickly stabilized bond markets. The US Federal Reserve System also supported markets by announcing a third round of quantitative easing. As a result, the bond yields of peripheral European countries returned to levels last seen at the end of 2010, and fears of a collapse of the Eurozone faded.

Although the global economy avoided a repeat of the deep financial crisis of 2008-2009, growth problems remain on the agenda. While the IMF still forecasts an acceleration in global economic growth in 2013 vs. 2012, it has already downgraded its forecast once this year. The results of global cooperation on the recovery after the crisis are also controversial. On the one hand, the world is moving toward greater unification of financial regulation, which is an important achievement and will help prevent another financial crisis in the future. On the other hand, through quantitative easing, countries are actually using competitive devaluation as a tool to increase their share of world GDP. While the USA and Europe were the first to implement loose monetary policy, they have now been joined by the Bank of Japan, and the Bank of England may also be considering this option. It is not surprising that under these conditions, investors prefer low-risk assets. The yields on German and French bonds remain near zero.
Quantitative easing in developed countries has been driving high fuel prices. This is most evident in oil prices, which have also risen on the back of geopolitical instability in the Middle East. Metal prices have showed more modest dynamics, influenced by the slowdown of Chinese growth. Geopolitical risks and continued loose monetary policy in developed countries appear to be supporting a favorable environment for commodity markets this year as well.

Figure 1: 2-year sovereign bond yields

Figure 2: Global steel and oil prices
Consumption drivers losing steam

The environment in 2012 again turned out to be very favorable for consumption in Russia. Household consumption growth accelerated from 6.4% y/y in 2011 to 6.6% in 2012, and overall consumption growth came in at 4.8% y/y, virtually unchanged from 4.9% y/y in 2011. The positive consumer mood was supported by a number of factors. First, salaries and income grew quickly due to faster growth in budget expenditures in 2012. Real salaries rose 8.4% y/y, a sharp acceleration from 2.8% y/y in

Figure 3: Real salaries and unemployment in Russia

Figure 4: Debt burden of households
RUSSIAN ECONOMY AND BANKING SECTOR OVERVIEW

2011, and real disposable income growth accelerated to 4.2% y/y from 0.4% y/y in 2011. Against this backdrop, unemployment in Russia continued to fall. The figure reached a historical low of 5.0% in the middle of the year and was 5.1% as of end-2012. Second, growth was supported by rapid expansion of retail lending. Even after expanding by a rapid 36% y/y in 2011, retail lending growth accelerated to 44% y/y in the middle of 2012 and was 39% y/y at the end of 2012.

However, even in this segment, worrying signals started to appear. First, the effect of faster growth in budget expenditures was quite moderate. Budget spending growth jumped from 8% y/y in 2011 to 18% in 2012, and a socially oriented budget policy helped to accelerate real salary and income growth.

Figure 5: Non-mortgage loans per capita, % of monthly salary

Figure 6: Debt-servicing ratio (interest plus principal), % of income
RUSSIAN ECONOMY AND BANKING SECTOR OVERVIEW

However, this increase in budget support did not carry over into a significant improvement in consumption. Second, the ability of households to further increase consumption via borrowing is doubtful. Although at first glance, Russia has a low level of retail loan penetration, its growth potential lies entirely in the mortgage segment. Out of a retail loan portfolio totaling 12% of GDP, mortgages amount to only 3% of GDP, which is insignificant compared with international standards. However, non-mortgage loans account for 9% of GDP, in line with or even higher than in some developed countries. On a per capita basis, the volume of non-mortgage loans per person in Russia is 160% of the average monthly salary, which is also quite high compared with international peers.

The high cost of debt servicing and short maturity may prevent rapid lending growth. Russian households are spending 20% of their income on interest payments and principal redemption, which is higher than in other countries. In other words, lending will have limited effectiveness as a driver of economic growth unless its maturity is extended and interest rates move lower.

Declining state stimulus is another concern. In 2013, budget policy is set to tighten. The government has approved a budget rule aimed at keeping the budget breakeven oil price in check. This is an important positive step for macro stability, but in practice it means federal budget expenditure growth will slow from 18% y/y in 2012 to 2% y/y in 2013. The government’s ambitious plans suggest cutting federal budget expenditures from 25% of GDP at the peak of the crisis to 19% in 2015. This is an important catalyst for a major increase in economic efficiency, but at the same time it could cause a slowdown of economic activity in the short term.

Figure 7: CPI growth by country

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>3%</td>
<td>14%</td>
</tr>
<tr>
<td>China</td>
<td>2%</td>
<td>12%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>4%</td>
<td>10%</td>
</tr>
<tr>
<td>Mexico</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>Hungary</td>
<td>12%</td>
<td>14%</td>
</tr>
<tr>
<td>South Africa</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Brazil</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Turkey</td>
<td>10%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Sources: Media reports, Rosstat, Alfa-Bank
RUSSIAN ECONOMY AND BANKING SECTOR OVERVIEW

Local producers losing the competition

In 2012, despite continuing consumption growth, production growth faced constraints. This is indicated by the significant deceleration of production growth from 4.7% y/y in 2011 to 2.6% y/y in 2012. Fixed-investment growth also slowed, from 8.3% y/y in 2011 to 6.6% y/y. Against this backdrop, corporate loan growth, in contrast to retail loans, decelerated. Last year, it was only 13% y/y versus

Figure 8: Russian import growth

Figure 9: Russian net capital flows
RUSSIAN ECONOMY AND BANKING SECTOR OVERVIEW

26% y/y in 2011. Local producers are finding themselves under pressure from lower competitiveness. The primary factor here is higher inflation: 2012 inflation of 6.6% was not only relatively high by global standards, it was also up from the 6.1% reported in 2011. Second, the acceleration in inflation took place amid a stable exchange rate. Quantitative easing in developed countries boosted risk appetite and capital flows to emerging and commodity-driven markets. In 2012, the ruble was not only stronger than many emerging-market currencies, it was also stronger than some oil currencies.

Third, deflation in developed countries is playing against Russia: in 2012 imports in nominal terms grew only 4% y/y versus 9% y/y in real terms, while in 2011 20% real import growth coincided with a 30% increase in nominal imports. These figures indicate heightened competition from imports not only because of domestic Russian factors but also increasing competitiveness in other countries.

Not surprisingly, high capital outflow continues amid uncertainty regarding future consumption growth and decreased competitiveness. In 2012, Russia saw a net outflow of $57bn, a decrease from $81bn the previous year. However, this improvement was technical in nature and reflects Russian banks’ use of currency swaps as an instrument for refinancing. In addition, concerns arise from the fact that net capital outflow is taking place in the context of continuing growth in corporate external debt. In 2012, the latter grew by $70bn, exceeding net capital outflow. Over the last three years, corporate debt increased by $125bn to 28% of GDP. Capital outflow equaled $170bn over that period, which offset the positive effect of the growth in external debt.
RUSSIAN ECONOMY AND BANKING SECTOR OVERVIEW

Figure 11: State funding of Russian banks

Monetary policy dilemma

The key challenge of 2013 for Russia is the need to support economic growth in a context of increasing global competition and weakening local consumption drivers. Given continued tight budget policy, the possibility of stimulating the economy through monetary policy has become the main topic of economic discussion.

Since 2011, the CBR has played an active role in providing banks with ruble liquidity. As a result, while at the beginning of 2011 only 2% of banking assets were financed by the state, by the end of 2012 this figure had risen to 7%. Combined with Finance Ministry deposits, state funds totaled almost RUB4tr, higher than the crisis peak of January 2009. This points to the regulator’s active role in maintaining lending growth, which helps hold down interest rates. However, this policy has shortfalls that need to be addressed.

Rapid growth in foreign-currency deposits was a challenge for the Russian banking sector in 2012. Combined retail and corporate foreign-currency deposits rose $52bn versus a $9bn increase in 2011. This likely reflects the insufficiently attractive interest rates on ruble deposits and general concerns over the instability of the exchange rate. Thus, the loose monetary policy and interest rate cuts required for real sector growth may slow the increase in the banking sector’s funding base even further.
In addition, inflation continued to accelerate in the first months of 2013. In December 2012, inflation was 6.6% y/y, but in February 2013 it accelerated to 7.3% y/y. Inflation-targeting, announced as a key priority of CBR policy and absolutely necessary for generating long-term savings, requires paying special attention to inflationary risks.

That said, structural reforms in the banking sector require the support of monetary authorities. Foreign banks, under pressure from tightening banking standards, have been forced to cut their presence in Russia — in 2012, the corporate loan portfolio of foreign banks fell by 3% y/y, and they lost market share in both the corporate and retail segments. The introduction of new regulations will put pressure on Russian banks as well, forcing them to minimize credit risks and increase capital. Raising reserve requirements in 2013 could have a pro-cyclical effect and pose an additional risk to economic growth.

The ability to boost investment and labor productivity growth remains the key factor determining the long-term potential of the Russian economy. As the experience of the last decade shows, the goal is not only to achieve higher growth, but also to achieve growth that is comparable to or better than in peer countries. The Russian economy enjoys the advantage of a low level of macroeconomic risk, including a low debt burden, the Reserve Fund and a high level of CBR reserves, but these factors are not sufficient to boost economic growth and competitiveness. Increased competition and structural changes are the prerequisites for better growth.
During 2012, Alfa-Bank’s corporate clients’ credit portfolio, calculated in accordance with IFRS standards, increased in dollar terms by 33.1% to $27.2 bln, against a market average of 21.5%. According to IFRS standards, as of December 31, 2012, Alfa-Bank’s market share hit 3.32% — a 0.38% improvement over the previous year’s results.
2012 was an interesting and important period in the development of Alfa-Bank's corporate and investment banking business. In that year, in addition to working in its traditional areas, Alfa-Bank embarked on the development strategy approved in 2011. In particular, we made many important changes that in the future will ensure Alfa-Bank's leading position as the largest private bank in Russia.

In the past year, the market for corporate loans continued to grow, but even so, Alfa-Bank posted a growth rate that outstripped that of the market. During 2012, Alfa-Bank's corporate clients' credit portfolio, calculated in accordance with IFRS standards, increased in dollar terms by 33.1% to $27.2 bln, against a market average of 21.5%. According to IFRS standards, as of December 31, 2012, Alfa-Bank's market share hit 3.32% — a 0.38% improvement over the previous year's results.

Corporate customer accounts also grew significantly, surpassing the previous year's result by 64.6% and amounting to $14.7 bln as of December 31, 2012. The growth of the business was accompanied by a marked increase in the target customer base. The target industry segments are machinery and metal working, construction, retail trade and agriculture. The aforementioned increase in the scale of its business allowed Alfa-Bank to boost the profit before tax of the corporate-investment business by 32.0%.

In the past year, loans to large and medium-sized corporate customers reported fast growth both in absolute and relative terms: the corporate loan portfolio in this segment demonstrated a 33.2% increase according to management reporting and reached $20.5 bln. The segment of medium-sized regional clients, including small and medium-sized enterprises, also showed significant growth of 68.0%, with outstanding exposure at year-end of $3.5 bln. In the mass corporate segment, loan portfolio grew more than twofold and exceeded $100 mln by the end of 2012. The corporate loan portfolio of the investment
Alfa-Bank will continue to develop as an efficient and convenient universal bank, and a reliable partner for customers of all types — from small businesses to the largest Russian companies, both in Moscow and the regions, each year confirming its status as the leading private bank in Russia.

business demonstrated moderate growth of 15.6%, increasing from $1.2 bln to $1.3 bln. The loan portfolio of Amsterdam Trade Bank and other credit facilities amounted to $1.8 bln.

Another feature of the corporate lending market in 2012 was the continued increase in competition from state-owned banks, which are becoming more efficient and active and have access to resources that are relatively inexpensive compared with those of private banks. As for foreign banks operating in Russia, last year their lending was stagnant, as they did not actively develop their business, while private banks were forced to specialize in certain types of products or types of customers. In these circumstances, Alfa-Bank’s role as a universal private financial institution, and as the leading partner for medium, small, and large businesses, gave it an advantage over its competitors. Alfa-Bank consolidated its position among the top five leading banks in Russia and confirmed its status as the leading partner for major corporations looking to use the services of not only state-owned, but also private banks.

Alfa-Bank has always had and maintains competitive advantages over partially state-owned banks and many private banks. These include the speed of its decision-making, as well as the high adaptability and flexibility of its approach to every customer depending on their needs. Maintaining this flexible approach is one of Alfa-Bank’s main priorities, and in order to do so, the bank has identified an entire range of important development areas that will allow it to better meet the needs of its customers. Of course, the special attention it pays to customers allows Alfa-Bank to actively grow its client base faster than the market as a whole.

Last year, leading international rating agency Fitch upgraded Alfa-Bank’s rating from BB+ to BBB-, outlook Stable, an investment-grade rating. Alfa-Bank became the first Russian private bank in history to receive an investment-grade rating from a leading international rating agency. This has strengthened Alfa-Bank’s position in capital markets, enhancing its value for existing investors and attracting new domestic and international investors.
Fitch Ratings notes that the rating upgrade reflects the strengths of Alfa-Bank’s credit profile, as well as the further improvement of its financial indicators. According to Fitch, Alfa-Bank has consolidated its position as the strongest private bank in Russia. The upgrade to investment grade was the result of 20 years of work on the part of Alfa-Bank’s management team, its professional approach to risk management, focus on quality customer service and technological development.

In 2012, Alfa-Bank participated in a number of major transactions in the syndications market. For example, it arranged a syndicated loan for KIT Finance Investment Bank OJSC. The two-tranche loan for $45 mln and 5 mln Euros was issued on June 29, 2012 for a period of 12 and 6 months (with the possibility of extension by 6 months), respectively. This was the first international syndicated loan obtained by KIT Finance. The money will be used to finance the export-import trade contracts of its customers.

Alfa-Bank organized the transaction along with other Russian and foreign banks: MDM Bank, Russian Agricultural Bank JSC, Bank Zenit JSC and Bayerische Landesbank, the agent for the transaction. The completion of this transaction underlined the significance of products like the club syndicated loan and strengthened Alfa-Bank’s position as an active participant in this market.

In October 2012, Alfa-Bank, Raiffeisen Bank International AG, Raiffeisenbank CJSC (RBI Group,) and VTB Bank OJSC, together with VTB Bank (Deutschland) AG, signed a credit line agreement with BINBANK OJSC for a syndicated short-term loan of $55 mln for a period of 364 days with a bullet repayment at maturity. The funds will be allocated to financing BINBANK OJSC customers’ export-import contracts.

Transactional banking

Another important trend was the development of transactional banking. Given plans to introduce the new Basel-III standards for banking supervision in Europe and Russia, the role of transactional banking will continue to grow in the future. This area provides the highest return on invested capital and presupposes a lower level of risk than other operations in sales of various products and solutions to customers. Alfa-Bank has set itself the goal of becoming the market leader in this area. Transactional banking includes not only payments and settlements, but also loan products like trade financing, factoring, supply-chain financing and guarantees. In recent years, Alfa-Bank has made great strides in developing transactional banking. Today, transactional banking is a separate business unit at Alfa-Bank and the sales model has changed, with product teams established in both the central and outlying regions to help customer managers sell transactional banking products. We believe the change in sales model will result in a noticeable increase in transactional banking revenue and help Alfa-Bank’s clients take advantage of the most advanced integrated solutions in this area.
In late August 2012, Alfa-Bank received the Elite Quality Recognition Award from major U.S. bank JPMorgan Chase for the high quality of its international payments in 2006-2011. Thus, Alfa-Bank confirmed its status as a top financial institution, selected by JPMorgan Chase from among more than 6,000 correspondent banks worldwide.

Alfa-Bank has received the Elite Quality Recognition Award every year since 2003 for the high quality of its customer and interbank U.S. dollar payments in accordance with the requirements of SWIFT STP, which carries out more than 99% of its U.S. dollar payments automatically and extremely rapidly. The recognition from JPMorgan Chase is the highest mark of the skills and professionalism of Alfa-Bank’s management and personnel, once again demonstrating our ongoing commitment to providing our customers with settlement services of the highest quality.

We pay special attention to the performance of Alfa-Bank’s retail financing segment, where the volume of transactions more than doubled. We are confident that, in the future, Alfa-Bank will remain a reliable partner for our customers in the realization of trade deals for the import of various types of equipment to Russia. An important competitive advantage is the presence in the Alfa-Bank Group of a Netherlands-based bank, which is also developing solutions for clients in the areas of trade finance.

According to management accounts, in 2012 the volume of trade finance transactions (letters of credit, international guarantees, targeted loans, transactions involving export credit agencies) increased by more than 65% over the 2011 level to nearly $3 bln. By the end of the year, Alfa-Bank’s portfolio had reached $2.2 bln, an increase of approximately 90% over the result at the end of 2011.

Alfa-Bank continued to provide trade-financing services to large corporate clients in nearly all industry sectors. As before, the leading sectors were retail and IT. It is worth noting the significant increase in the transport sector, where the first letters of credit were issued for airline company lease transactions. The portfolio of transactions for regional mid-sized customers had more than doubled by the end of the year.

As for working with foreign banks in this segment, Alfa-Bank fulfilled its task of increasing the number of active counterparties, which was necessary for the diversification of the portfolio and to provide services that are more convenient to customers and their foreign partners. In 2012, Alfa-Bank concluded transactions involving 20 new foreign banks and export credit agencies. For the first time since 2008, Alfa-Bank was able to resume cooperation with Japanese banks, with the first letters of credit confirmed and funded by leading Chinese banks. New agreements were reached with banks from the U.S., the UK, Taiwan and other countries for allocating targeted loans to finance foreign trade customers. In light of the development of relations and improvement of Alfa-Bank’s credit ratings, foreign banks signaled their
readiness to conduct transactions even without the participation of export credit agencies for periods of up to five years, primarily to support their own customers’ exports.

In 2013, Alfa-Bank expects to further increase its number of trade finance transactions, including via the new sales model introduced last year. The existence of our own sales team will allow us to work more closely with customer departments, as well as with customers directly. Our joint industry and regional experience enables a better understanding of the business and development potential of each client, allowing us to identify the potential use of trade finance. In this case, the task is not only to identify the customer’s existing needs, but also to shape the needs of the customer for these products.

**Online banking for corporate clients**

In 2012, we developed a new version of our online banking module and its mobile version for corporate customers. Testing of the systems continues to date, prior to their large-scale unveiling in 2013–2014. The system’s functionality will be a pleasant surprise for Alfa-Bank’s corporate customers and will make communicating with Alfa-Bank even simpler and more convenient.

**Investment business**

In 2012, the investment business developed in two directions. On the one hand, we actively promoted complex credit products and complex transactions, such as acquisition financing. Alfa-Bank has established a professional team with experience in structuring these transactions, which made it possible to finance a series of acquisitions by our customers. The second direction of the investment banking business’s development was the creation of products for a wide range of corporate clients in both the regional network and the central region, such as hybrid loans and structured deposits. For instance, structured deposits are now part of the product line in almost every region where Alfa-Bank is present, and they are accessible to a wide range of corporate clients.

Structured deposits, which were offered to customers in 2012, have two main advantages over standard bank deposits (guaranteed rate of return and repayment of principal in accordance with the Civil Code of the Russian Federation) while also allowing for the generation of additional income and diversification of market risks. The product is constantly being improved: we are proposing new solutions and variations, depending on customers’ individual needs, including pre-term fixing of income and fixing the currency of the deposit repayment for indexed and dual-currency deposits, respectively. Unlike many competitors that offer their products in the form of notes governed by foreign law, Alfa-Bank offers its hybrid deposits in the safest and best-protected format of bank deposits, in accordance with Russian law. In 2012,
Alfa-Bank attracted 46 new deposits, for a total of $177.5 mln. We anticipate that in 2013, interest in structured deposits will increase, as evidenced by the increase in volumes of funding and the client base in the first quarter of 2013. In addition to structured deposits, since 2013 customers have had the option of structured loans, which combine the features of a conventional loan and a derivative, optimizing the interest rate for the client.

Fixed income transactions

By the end of 2012, Alfa-Bank had consolidated its position in the market of primary placements of bonds, having carried out a number of significant transactions and firmly entrenched itself among the top five market leaders in the placement of corporate bonds of non-financial issuers. In 2012, Alfa-Bank’s experts conducted a number of successful offerings for its customers in the financial institutional, retail, construction and real estate, and telecommunications sectors. The total 2012 volume of bond IPOs organized by Alfa-Bank for Russian borrowers was more than $3 bln.

In February 2012, Alfa-Bank completed the placement of CREDIT EUROPE BANK CJSC’s B0-O2 bond series, with a total nominal value of 5 bln rubles. The underwriters of the issue were Alfa-Bank, Troika Dialog, PSB and Zenith Bank. The transaction was one of the most successful placements of bank bonds on the Russian debt market last year, building on the success of the first commercial bond placement transaction, launched in April 2011. The transaction was the third initial placement of CREDIT EUROPE BANK CJSC bonds carried out sequentially by the Alfa-Bank team over the past year and a half. These dynamics attest to both the attractiveness of the bonds, as well as the high quality of Alfa-Bank’s initial bond placements on the market.

In March 2012, VimpelCom JSC closed the book on bids for its 1st to 4th series of non-convertible interest-bearing documentary bonds for a total of 25 bln rubles. The proceeds will be used for VimpelCom’s general corporate purposes, including refinancing of existing debt. The underwriters of the placements were Alfa-Bank, Raiffeisen Bank and Troika Dialog. The deal was unique for the Russian market in terms of the volume of bonds for a single issuer simultaneously placed on the domestic market, as well as in the marketing strategy for the bonds.

Similarly, in 2012, Alfa-Bank registered a program for 100 bln rubles of its own commercial bonds. By placing two issues of commercial bonds totaling 15 bln rubles in 2012, Alfa-Bank created a yield curve on the ruble bond market.
Alfa Direct

Despite the decline in the volume of stock trading, we continue to develop the functionality of the Alfa Direct system. Our task is to ensure that, if necessary, the customer can always conduct any transaction on the stock market in a way that is easy, convenient and quick. This is another point of interaction between our corporate and retail businesses. Alfa-Bank’s successes were recognized with a special award, with the bank named the top broker in a major stock exchange competition, Top Private Investor 2012, the final of which took place in January 2012. During the competition, Alfa-Bank customers operated on the exchange via the Alfa Direct trading terminal. The Best Private Investor-2012 competition was conducted on the Moscow Stock Exchange. Its main purpose was to demonstrate the possibilities available to private investors for trading instruments on the stock, futures and currency markets, and the returns available to competent traders on these platforms.

Regional banking

The development of Alfa-Bank’s regional business was also ahead of market growth. An important achievement in 2012 was the successful development of a system for monitoring performance indicators in all territories with an Alfa-Bank corporate banking presence. Another of Alfa-Bank’s competitive advantages in the regions is the comprehensive range of products offered, allowing it to meet all of a client’s needs.

Mass Corporate Business

Alfa-Bank pays a great deal of attention to the development of its mass corporate business, providing banking services to small companies (with revenues of up to 150 mln rubles a year), which yields excellent results. Although working with small businesses and entrepreneurs is a relatively new trend, in two years of intensive work, Alfa-Bank has achieved rapid growth in all key performance indicators. Thus, in 2012 the number of clients from small businesses and individual entrepreneurs exceeded 57,000, an increase of 65% over the previous year. Alfa-Bank’s commission income in the small business segment grew by 53%, while the average monthly balance in customer on-demand accounts increased by 97% compared with 2011.

One reason for the success is the wise development strategy chosen: the focus was placed not on lending, but on development of transactional banking, providing cash management services to clients, and services making it simpler to run a business. In the mass corporate business segment, Alfa-Bank positions itself as a convenient bank that offers affordable services, values its clients and speaks plainly to them. Our strategy in this segment is to develop our network, adopt an individual approach to our customers, and provide services for entrepreneurs that make doing business easier and more convenient.
In 2012, Alfa-Bank’s loan portfolio in the mass business segment doubled compared with 2011. In 2013, Alfa-Bank intends to maintain the same rate of growth. Alfa-Bank offers small companies and individual entrepreneurs the largest unsecured loans available on the market, of up to 6 mln rubles. However, Alfa-Bank’s main focus in this segment, as before, is on the risk-free business that most companies conduct on a daily basis: handling customer payments.

By the end of 2012, we had more than 160 branches in Russia, offering services to small businesses and entrepreneurs, where customers can obtain the full range of products and services and helpful advice. Alfa-Bank plans to open another 40 branches in 2013.

Over the past year, Alfa-Bank offered small companies and individual entrepreneurs a range of new products and services: a new package of cash management services for companies with various types of business and financial activity (“All Inclusive,” “Business Start” and “Importer”). We launched the new Alfa Business Online banking program, integrated with online accounting partners “My Business” and “Contour-Elba”, thanks to which businesspeople can now manage all of their business and accounting tasks in a single window. The new “Mobile Branch Manager” service allows customers to open a checking account at Alfa-Bank without visiting the office — the customer merely submits an online application and is then visited by a branch manager.

In 2012, Alfa-Bank developed the “Customer Club” loyalty program especially for small businesses, which now includes more than 650 companies across the country. Club members receive free advertising on Alfa-Bank’s website and, as a consequence, an additional stream of customers, while Alfa-Bank’s other customers receive discounts on the products and services required to sustain and grow their businesses. In 2013, we plan to grow all of our key indicators, revenues from commissions, balances of on-demand accounts and number of active customers by an average of 40%, above the market growth rate. As a result, by 2015 we plan to increase our market share in this segment by 5%. We will focus on growing our customer base, expanding our distribution network, developing remote service channels, adopting an individual approach and continuously adapting products and services to the needs of customers.

In addition, with the needs of small businesses in mind, we are preparing to launch a new line of deposit accounts and develop mini terminals for cashless payments, products, and cash management services, which will allow the customer him or herself to choose the required services at an optimal rate. We will also introduce a new loyalty program, providing discounts on banking services to active companies. Customers will be offered a new non-banking service as well: free tax and legal advice from leading companies, all as part of Alfa-Bank’s package of services.
7th All-Russian “Russian Banking Sector Media Conference: Risks to Growth.”

Alfa-Bank organized the 7th All-Russian “Russian Banking Sector Media Conference: Risks to Growth,” held on October 26, 2012 in Moscow. More than 150 national and regional media representatives attended the conference. This year’s speakers included Chairman of the Board of Directors of the Alfa Banking Group Petr Aven, President of RSPP Alexander Shokhin, Rector of the New Economic School Sergei Guriev, Deputy Finance Minister Alexei Moiseev, Deputy Minister of Economic Development Sergey Belyakov, Member of the Financial Markets Committee and President of the Russian Association of Regional Banks Anatoly Aksakov, and many others.

At the conference, representatives of major financial institutions, public authorities, and national and regional media discuss the present and future of industry in a direct dialogue. Conference participants get an idea of the financial and economic situation in the country and the current state of the banking sector, and have the opportunity to ask questions to leading economists, bankers and other experts.

Outlook for the Bank in 2013

The strategy of Alfa-Bank's Corporate-Investment business in 2013 includes further developing the new sales model, in which Alfa-Bank acts as a partner to our customers and not merely as an institution providing banking products and funding their specific needs. At the moment, we are working on a complex system for exchanging analytical information on various sectors of the Russian economy that will allow all of our clients to obtain this information freely when talking to a client manager. This will not only open up additional possibilities for current customers of Alfa-Bank, but also create new competitive advantages in recruiting new customers.

We also plan to provide services to financial institutions in the broadest sense of the word: for this purpose, we are now implementing a pilot project to provide settlement and other services to banks in the Russian Federation, as well as foreign institutions that serve the needs of clients operating in Russia. This is a very important area of development for Alfa-Bank in the coming year.

Finally, as before, Alfa-Bank will continue to develop as an efficient and convenient universal bank, and a reliable partner for customers of all types — from small businesses to the largest Russian companies, both in Moscow and the regions, each year confirming its status as the leading private bank in Russia.
By the end of 2012, Alfa-Bank had 220 operating cash and credit branches in Moscow and the regions, with 50 in Moscow and 170 in the regions. Alfa-Bank intends to continue to expand its network, increasing the number of branches throughout Russia. For example, the Moscow branch network will be doubled over the next three years, helping the Bank serve its more than two million customers in the city.
THE RETAIL BANK

In 2012, the Retail Bank made considerable progress. Priority areas were actively developed, and market share in key segments increased. The main objectives for the year were growing the number of active customers, Alfa-Bank's retail network, the volume of retail on-demand deposits, the loan portfolio and, in particular, sales of credit cards. We achieved our objectives in all these areas, sometimes surpassing planned targets and with portfolio growth ahead of the market.

Overall, the individual banking services market posted significant growth in 2012. Consumer lending, including consumer loans, cash loans and credit cards, expanded rapidly. In lending, banks used funds raised from individuals and corporate clients, as well as from the Central Bank and Ministry of Finance. According to our estimates, the market grew by approximately 40%, while the credit card segment grew an astonishing 86%.

Another important task last year was to increase the number of Alfa-Bank's customers. We were able to achieve this, with a total of 8.9 mln by the end of 2012. The increase was particularly rapid in priority sectors for Alfa-Bank: the mass affluent segment, affluent and high-affluent segment and mass segment. Alfa-Bank kept up with or even outstripped other leading banks in terms of retail growth. Its credit card portfolio more than doubled, well above the market average, allowing it to maintain its position among the seven leading players in this market.

Individual lending is a new area of focus for Alfa-Bank, and one of the objectives for 2012 was to increase market share, an objective we achieved. At the beginning of the year, Alfa-Bank controlled approximately 2.0% of the individual non-mortgage market; by the end of the year, its share had increased to more than 2.3%. The overall lending market saw strong growth, but Alfa-Bank was able to achieve an even
better result, increasing its loan portfolio by 68.7%, or more than one and a half times, over the course of the year. In personal installment loans and credit cards, the increase in the portfolio was even more rapid, more than doubling over the year.

Another area to be noted is individual on-demand customer accounts. In this segment, we chalked up a major success: in mid-2012, Alfa-Bank took one of the top two spots in the market, ahead of state-owned bank VTB-24 and behind only Sberbank. Total volume of individual on-demand customer accounts at the end of 2012 reached $6.6 bln. These figures show that more and more customers perceive Alfa-Bank as their home payment bank, where they not only keep their money, but also perform all of their daily transactions.

Expanding the sales network and regional development

In 2012, we actively expanded the Retail Bank sales network. In December, we opened our landmark fiftieth branch in the Moscow Region. Last year, Alfa-Bank opened 12 new branches in Moscow and the Moscow Region, as well as 21 new fully-fledged customer service branches across the country, 12% above the target set at the beginning of the year. By the end of 2012, Alfa-Bank had 220 operating cash and credit branches in Moscow and the regions, with 50 in Moscow and 170 in the regions. Alfa-Bank intends to continue to expand its network, increasing the number of branches throughout Russia. For example, the Moscow branch network will be doubled over the next three years, helping the Bank serve its more than two million customers in the city.

Of course, in addition to new branches in Moscow and St. Petersburg — very important markets for Alfa-Bank — in 2012 we opened offices in new cities where we previously had no presence, such as Ryazan and Biysk. In June, we opened a branch in Stavropol — the first branch opened in the newly formed North Caucasus Federal District. Alfa-Bank intends to step up its operations in the Stavropol
Region and neighboring republics, which are now the target of heavy investment, construction and new businesses. Furthermore, additional branches were opened in cities where Alfa-Bank already had a presence, including Krasnoyarsk, Khabarovsk and Krasnodar.

Currently, there are traditional branches in more than 80 Russian cities. In addition, the consumer lending business is represented in more than 20,000 other locations in small cities and towns, offering consumer loans, credit cards and basic packages of services.

Similarly, last year, Alfa-Bank began opening micro-branches with only two employees as part of a pilot project. This is a new and interesting customer relations model and it has proved to be a convenient solution for both Alfa-Bank and the customer, with nearly 100 of these branches operating by the end of the year.

Alfa-Bank also expanded its ATM network in 2012, with Alfa-Bank’s network merging with those of Moscow Credit Bank and Rosbank. These and earlier mergers of ATM networks have increased the total number of ATMs from which Alfa-Bank customers can withdraw money with no additional fees to approximately 11,000 in 850 towns.

In 2013, we plan to open at least 50 new branches, 50% more than last year. Alfa-Bank will keep a tight focus on Moscow and St. Petersburg, at the same time opening branches in new cities such as Yakutsk. The overall expansion strategy for the retail network combines developing Alfa-Bank’s presence in major cities with populations of one million or more and targeted opening of branches in smaller cities of interest to Alfa-Bank; for example, where there is potential for growth in the payroll segment, which is a top priority. In 2012 alone, more than 720,000 salary cards were issued to both existing and new customers all over the country.

We also plan to open several new A-Clubs in 2013, including two new clubs in Krasnoyarsk and Krasnodar, new territories for this customer service format. In addition, the number of branches in Moscow and Yekaterinburg will be expanded in response to strong demand.

**A-Club**

A-Club is an exclusive network of clubs that gives its members access to a wide range of banking, investment and insurance solutions, as well as 24-hour banking services from a personal account manager. At present, there are four A-Club offices in Moscow and six in other large Russian cities: St. Petersburg, Yekaterinburg, Chelyabinsk, Tyumen, Novosibirsk and Samara.
In 2012, A-Club expanded its operations in existing locations in Moscow and Yekaterinburg and began opening clubs in Krasnodar and Krasnoyarsk. In particular, at the end of 2011, an A-Club office was opened on Ordynka, which underwent significant development last year. The total amount of funds deposited with Alfa-Bank by A-Club customers has exceeded $2 bln, a significant milestone reached at the end of 2012. We have also seen extraordinary growth in the sale of investment products, meaning A-Club customers are actively considering alternative options for investing, choosing, in particular, investment and insurance solutions.

Once again, the successful operation of Alfa-Bank’s premium banking services did not go unnoticed. Alfa-Bank won the SPEAR’S Russia Wealth Management Award 2012 for private banking and wealth management in the category “Best Russian Bank Providing Private Banking and Wealth Management Services”. This award confirms Alfa-Bank’s focus on its customers. It first won the award in 2009 and has since consistently held on to the leading position in the private banking field.

E-business

Alfa-Bank has always been and will always be a high-tech bank, providing clients with cutting-edge services that allow them to simply, effortlessly and, most importantly, securely manage their cash. The system becomes more convenient for customers each year, partly thanks to changes made in response to client feedback.

In 2012, Alfa-Bank upgraded its online banking platform, improving operational efficiency, minimizing downtime and implementing various solutions requested by customers. Users can make use of new features such as an expanded list of payees in the utility payments module. However, the most important features of the new platform are its reliability and enhanced level of security, in accordance with the latest requirements. The transition to an innovative technological platform is an important step, not only in terms of providing access for online banking customers and further increasing the security of online transactions, but also to facilitate the introduction of new online banking features in the future.

Alfa-Bank’s e-business has grown rapidly. In 2012, the total number of customers using the Alfa-Click online bank passed the major milestone of 2.3 mln, while the number of users of Alfa Mobile banking now exceeds 200,000. We estimate that today, Alfa-Bank holds at least a 15-17% share of the Russian mobile banking market. This is a significant market share, making Alfa-Bank a trend-setting player. Alfa-Bank is constantly improving its payment security system for online transactions via Alfa Click online banking. As of 2012, Alfa-Bank’s customers are now able to use the new Alfa Key service, which allows customers to confirm operations via the Alfa Click online bank using one-time passwords generated by
a special program installed on their mobile phone. The main advantages of the service are that it allows the customer to receive a password without an SMS from the bank, expands the list of available operations and provides enhanced security for online payments.

In 2012, it became even easier and more convenient to use Alfa-Bank cards for online transactions — the one-time SMS-password required for card verification by the 3DSecure technology when making online payments for goods and services was changed in 2012 from alphanumeric to numeric. This made it easier for customers to change the password but did not affect transaction security. The Alfa Click online banking SMS-password will also be simplified. It was not only switched to a numeric code, but was shortened from eight to six digits. Reducing the number of password digits saves customers time when they log on and confirm transactions, making the online bank not only secure, but also convenient.

The proposal to change the format of the SMS-password for Alfa-Click online banking came from the Alfa Idea site, the Russian banking sector’s first resource that allows customers to put forward and discuss ideas for products and services.

Similarly, in 2012, we debuted a banking application for mobile devices running the WindowsPhone operating system — the first banking app for that platform released in Russia. The app was developed in response to customer requests. The Alfa Mobile application for the iOS and Android operating systems was also upgraded, giving Alfa-Bank customers new remote banking possibilities. The upgraded and expanded functionality of the applications makes it easier for users to manage their finances.

Last year, we launched a free version of our mobile banking app, Alfa Mobile-Lite, for customers requiring certain information, such as account status. Alfa-Bank’s mobile banking allows users to see a map displaying the locations of nearby branches and ATMs and to estimate how far away they are and how long the wait time will be, and to find loan repayment offices and shops offering discounts on purchases using bank cards.

In addition, in 2012 we introduced a new design for mobile banking, adding a number of new and exciting services that are not only useful but also interesting or enjoyable for our customers. Our task is to make online applications that are not merely functional but also fun. Freedom and convenience are the main criteria guiding customers when they pick up the phone or go online to carry out transactions, which is why we devote a lot of attention to the mobility of services and convenience of interfaces. After all, these concepts now define the financial services market.

In 2012, all Alfa-Bank customers subscribed to the Alfa-Check service were able to make use of two new mobile services — “SMS Card-to-Card Transfer” for secure and easy funds transfers between Alfa-Bank
customers, and funds transfers to third-party banks using SMS messages. Alfa-Bank cardholders can now transfer funds to their Visa or MasterCard cards quickly and securely via SMS. In order to make the service as simple as possible for customers, we added the ability to specify the beneficiary’s telephone number rather than card number as a parameter. These services do not require users to install any specialized software on their telephone.

The online acquiring business, which Alfa-Bank has been developing since 2000, continued to grow rapidly last year. Our extensive experience in this field allows us to provide services to companies of any size regardless of the volume of their business. The main advantage of Alfa-Bank’s online acquiring is that the Bank itself handles processing and payments on credit cards, i.e. these transactions are carried out without the involvement of intermediaries, which ensures a high level of security. The multi-level fraud-prevention and high-risk-transaction-monitoring system used by Alfa-Bank’s processing center allows for the monitoring and prevention of even non-standard fraud attempts. Security for online payments is ensured by 3D-Secure technology, certified by international payment systems Verified by Visa and SecureCode for MasterCard. In 2012, Alfa-Bank’s share of the Russian online acquiring market was about 40%. In addition, Aeroflot, Russia’s largest airline, is now among Alfa-Bank’s customers.

New products and services

Turning our attention to individual developments, successful solutions and new products introduced last year, we must first note the credit card with a 100-day grace period, which was the year’s biggest sales hit. At the beginning of the year, no more than 10-15,000 credit cards were sold throughout the entire network, while by the end of the year, sales exceeded 100,000 units, a substantial proportion of which was cards with the 100-day grace period. This true success story of 2012 is the best deal on the market.

Another interesting development in 2012 was a new version of the online form, allowing a customer to complete a loan application in just a few minutes. In devising the form, Alfa-Bank drew on global best practices, real customer experiences and its own developments. As a result, customers obtained a very convenient product that provides assistance and allows them to complete the application in the shortest possible time. The increased convenience of the service has greatly increased the number of online applications, with nearly a quarter of the total number of applications submitted in this manner. We expect this channel to see more and more demand.

Another successful product in 2012 was the Gold and Platinum Aeroflot-MasterCard-Alfa-Bank credit card, with no service fees for the first year — a joint co-branded product with Aeroflot. This attracted a lot of attention on the market and significant customer interest.
The Aeroflot-MasterCard-Alfa-Bank card is one of the most popular co-branded cards on the Russian market. They were first issued in January 2006. Alfa-Bank now issues more than 15,000 debit and credit cards every month. These premium, co-branded, no-service-fee cards with Aeroflot are one-of-a-kind on the Russian market. The use of MasterCard technology allows the consumer to conveniently, securely and quickly perform a variety of everyday financial tasks, from purchases to booking airline tickets and hotels, from loans to accumulating loyalty points to be redeemed in exchange for benefits.

New co-branded products were also issued in the premium category, including the premium Visa Privilege Card, issued jointly by Alfa-Bank, Visa and the Quintessentially Lifestyle elite concierge services club. Another is the first and only VisaPlatinum premium card on the Russian market, created specifically for successful and elegant women with an eye to their needs, preferences and interests. These mergers of deluxe banking and concierge services meet the needs of the most demanding customers. Holders of the Privilege Card have access to personalized services, a dedicated telephone line, and a package of insurance, legal and concierge services around the world, covering the different activities of Alfa-Bank customers, including travel, entertainment, shopping and much more.

Security

Alfa-Bank is investing heavily in making its services not only more convenient but also more secure. Last year, we began to transition our card business to chip technology, with most of our premium and co-branded cards already using chips. As of today, nearly all co-branded plastic cards issued with Aeroflot have been transferred to chip technology. All Alfa-Bank cards will eventually follow suit to enjoy the enhanced security chips provide for customers.

Another important security improvement involved the E-Business Monitoring Department, where Alfa-Bank established units to monitor Alfa Mobile banking and Alfa Click online banking. Now, all customer transactions and operations carried out not only at ATMs and POS terminals, but also via online banking (Alfa Click) and mobile banking (Alfa Mobile) are monitored around the clock in real time. Statistics indicate that the quality of Alfa-Bank’s monitoring is several levels higher than that of many European banks, in terms of ensuring the security of online transactions. While maintaining a high level of security in its electronic channels, Alfa-Bank also provides the means for customers to carry out their transactions in a quicker and simpler way. Evidence of this includes last year’s innovations, including the removal of alphabetic characters from Alfa Click online banking passwords and the reduction in the number of digits from 8 to 6, the ability to make payments using templates in the online banking system with a simplified identification process, and password-free payments via mobile telephone using the Alfa Mobile system. All this is aimed at ensuring customers can quickly,
easily, and, most importantly, securely conduct transactions via whichever remote service channels are most convenient for them.

Working with personnel

2012 saw important developments in Alfa-Bank’s relationship with its employees — the people who greet our customers every day. For example, we created a new tool called “Open Dialogue”. Since December 2012, in cities with an Alfa-Bank presence, monthly meetings have been held to which all local personnel are invited to discuss life at Alfa-Bank. Similar meetings have already been held in Ulyanovsk, gathering more than 150 people. In Tyumen, 80 people attended the meeting. In addition, Alfa-Bank has instituted monthly assemblies to elicit live feedback from staff, breakfasts for unit managers and their personnel and other opportunities for direct communication among personnel at all levels.

2013 will be a year of even more active communication. We expect our communication to help us achieve our primary goal for next year: to see our company through the eyes of our customers. After all, a good relationship with customers begins with the special attention paid to Alfa-Bank’s employees, who need to understand and share a philosophy of working and talking with customers. Only a well-informed staff member who shares and supports Alfa-Bank’s objectives his or her mind and heart can convey the right message to the customer and create a sense of loyalty to Alfa-Bank.

Feedback

Feedback from customers is one of the key tools in developing customer service. At the end of 2012, Alfa-Bank established a new initiative called “Improving the Quality of Customer Experiences.” The initiative will integrate and analyze data from all channels of communication with customers. At the moment, there are many ways to provide feedback on Alfa-Bank’s services: the hotline on the website and the Banki.ru portal, as well as Alfa-Bank’s own pages on social networks and suggestion boxes at branches. The availability of a variety of channels is intended to ensure that every customer has the opportunity to express his or her opinion on Alfa-Bank in a convenient way. Alfa-Bank personnel look into every case and analyze and respond to every message received.

We have significantly increased the speed with which we review feedback — for example, we resolve complaints about ATMs within two days, on average. By the end of the project, the goal of which is to reduce resolution times to a single day, we plan to review the possibility of moving the process online. At the end of last year, we launched a pilot project called “Time to Promise.” Clients were asked to rate the quality of service at branches, and wherever our services did not meet our standards, the customer
received a bonus, for example, a voucher for no-wait service or a gift product from Alfa-Bank. In addition, as part of the “Solved on the Spot” project, we expanded the authority of branch personnel to solve certain customer issues on the spot. These are additional means of ensuring that customers get what they want. Another initiative was Alfa-Bank’s creation of a special box to collect positive reports from customers. All positive reviews are analyzed, and the best practices are disseminated to other cities. In the future, we plan to ramp this program up further, making use of positive branch experiences and best practices wherever feasible.

Finally, we note that we already have a systematic approach to finding out and addressing our customers’ opinions, and the tools used to assess the quality of our services will include mystery shopping, the secret agent, “voice of the customer”, the NPS technique, and reviews from customers and employees.

Retail Bank Awards

In 2012, Alfa-Bank again focused on improving the level of service and quality of customer experiences. These efforts were noted by the professional community, which awarded a number of prizes to Alfa-Bank. These include “Best Retail Bank” and first place in the customer service ranking at the RETAIL FINANCE AWARDS 2012 annual ceremony for achievement in the Russian retail finance industry.

In addition, Alfa-Bank took first place in a ranking compiled based on a study of Russian retail banks, entitled “Customer Experience Index — 2012. Finding the Right Path to Attractiveness in the Eyes of Customers,” conducted by Senteo. Alfa-Bank has received this recognition consistently since 2007 and last year topped the Index for the fifth time. Alfa Click online banking won the Runet prize for Best Online Bank, confirming that we have chosen the right path in developing our IT infrastructure.

Finally, Alfa-Bank was recognized as the leader among Russian banks in the customer satisfaction index, as evidenced by the EPSI Rating (an independent metrics project for the All-Russian Consumer Satisfaction Index.) In 2012, Alfa-Bank’s customer satisfaction index increased 8.7% to 82.2 points. This was a result of Alfa-Bank’s efforts to improve the quality of our products, services and customer service. We are proud that Alfa-Bank customers value the quality of our services, as this is one of our priorities.

Forecasts and Priorities for 2013

Given that the most important task facing the Retail Bank in 2013 is to see our business through our customers’ eyes, many of the innovations we plan to unveil next year are associated with this objective. For example, at the very beginning of the year, we will set up segment-specific sales and service models.
Alfa-Bank’s strategic objective is to differentiate the product line, network and marketing — all components of the business — depending on the needs of each specific customer segment. We will continue our segmented focus on payroll companies.

The second task of the Retail Bank will be to further expand the distribution network. Next year, we plan to open 50% more new branches than in 2012 and build a new network for the high-volume segment, which will include micro-branches and consumer lending centers.

We will continue to pay special attention to lending in 2013. According to our forecasts, this segment of the market will continue to grow rapidly, while Alfa-Bank’s objective is to stay ahead of the growth curve and build on the success achieved last year.

As before, e-business will be one of Alfa-Bank’s priorities. Our objective is to be the leader in technology solutions for clients, because simple, convenient and free access to banking services are crucial to our customers and will become more important each year.

Once again, we will pay particular attention to our employees, since their dedication and loyalty are key to building successful relationships with our customers.

Naturally, the most important area of our customer relations remains improving customer impressions. Looking at the business through the eyes of the customer, we see that he or she expects efficiency, innovation, novelty and convenience from Alfa-Bank. We also see that Alfa-Bank has a huge advantage in winning customer loyalty thanks to its high level of service, strong team, cutting-edge technology and attractive product line. Each year, Alfa-Bank makes new strides towards maximizing customer convenience, making improvements based not only on its own experience, but also on the wishes and expectations of the people who use its services and place their trust in Alfa-Bank. We are confident that the ranks of these people will continue to grow in 2013.
FINANCIAL RISK MANAGEMENT

Alfa-Bank attaches great importance to the proper management of financial risks. The main purpose of Alfa-Bank’s risk management is to achieve the optimal ratio of risk and return for its operations. In 2012, Alfa-Bank continued to pay great attention to improving risk management as a key element of its development strategy in a more competitive banking market. During the year, Alfa-Bank evaluated internal and external risk factors, both in the existing Alfa-Bank portfolio and in potential future transactions. This helped Alfa-Bank to avoid financial losses and further improve the quality of its loan portfolio and revenue growth in the current economic conditions.

We now apply a uniform risk management policy to our entire product line, involving management of financial risk (including credit, market, currency, liquidity and interest rate risk), as well as operational risk management. Financial risk management involves determining appropriate risk limits and ensuring that the risk of potential losses does not exceed these limits. Operational risk management means ensuring the proper functioning of internal processes and procedures to minimize Alfa-Bank’s exposure to other internal and external risk factors.

Alfa-Bank’s risk management strategy consists of several primary components: risk management, risk identification, risk assessment and risk monitoring.

Risk Management: organizational structure

The Board of Directors of Alfa-Bank has overall responsibility for overseeing the risk management structure and monitoring management of key risks. Its duties also include approving transactions that pose a significant capital risk.

The Audit Commission is responsible for overseeing the internal control framework, assessing the adequacy of risk management, as well as developing policies and procedures for supervising the implementation
of legal and regulatory requirements. It meets regularly and makes recommendations to the Board regarding the development of the risk management structure, the quality thereof and relevant regulatory requirements.

The Executive Board of Alfa-Bank is responsible for monitoring and implementing risk-mitigation measures and making sure that Alfa-Bank operates within established risk parameters. The Risk Management Department is responsible for the functioning of the risk management system, ensuring that general principles of risk management are applied, identifying risks, determining their scope, and reporting on risk. Credit, market and liquidity risks at both the portfolio and transaction levels are managed and controlled through a system of Credit Committees, the Treasury Department, Risk Management Department, Retail Risk Management Department and the Assets and Liabilities Committee (“ALCO.”) In order to facilitate effective decision-making, Alfa-Bank has established a hierarchy of credit committees and individual limits, 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-sized enterprises, and mortgage loans along with market and operational risk. The Department of Retail Risk Management deals with credit cards and consumer loans, deferred loans, automobile loans and consumer loan portfolios. Risk management is focused on proactive portfolio management, particularly of problem loans.

Identification of risks

Within its organizational structure as a whole, Alfa-Bank identifies both external and internal risk factors, as well as how to manage them. Particular attention is paid to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of Alfa-Bank.
Assessment, management and control of risks

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

In 2012, there were no significant changes in the risk management system in comparison with 2011, but Alfa-Bank is constantly improving its lending policies and certain risk management procedures in order to maintain and strengthen its position in the banking market, including during potential market shocks.

Credit risk

As a financial organization, Alfa-Bank takes on exposure to credit risk — the risk that the counterparty will be unable to pay amounts in full when due. Credit risks are structured according to the product, borrower, industry sector, etc., with a risk limit set for each parameter. Such risks are constantly monitored and regularly reviewed.

Analysis of the credit quality of financial assets is based on their stratification by established limits: higher limits are assigned to counterparties whose credit quality is better. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on- and off-balance-sheet exposures 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 these 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-taking issues to committees, and granting specific approval of large transactions. The Lending Policy sets forth the framework for monitoring exposure to credit risk, including portfolio concentration limits and definition of responsibilities. In 2012, Alfa-Bank twice revised its credit policy to ensure it meets the current risk and market conditions.

Alfa-Bank’s Credit Committees are responsible for approving the volume of credit risk. Each credit committee operates under special instructions approved by the Board of Directors.
FINANCIAL RISK MANAGEMENT

• Depending on the value of the credit risk, decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplemental Credit Committees. The ceiling risk level is approved by the Executive Board: these include most major transactions with a value of over $200 million. Under certain conditions, loans approved by the Senior Credit Committee have to be approved by the Executive Board or the Board of Directors.

• The Retail Credit Committee monitors the portfolio indicators for retail loans and the outlook for its development. The Retail Credit Committee also approves new retail loan products and the current margins for all retail products, controls the level of provisions and write-offs for the portfolio of retail loans, and makes other decisions on lending. The Committee meets monthly, and its members include representatives of all major Alfa-Bank retail departments.

Credit risk monitoring

Exposure to credit risk is subject to constant monitoring.

Management of corporate lending identifies potential problem transactions using a unique set of criteria for assigning the status of “questionable” transactions, as well as escalating procedures based on the status of the problem. Any significant risks to a client leading to deteriorating creditworthiness are reported and reviewed by the Credit Committee.

In order to manage credit risks, Alfa-Bank separates the loan portfolio into the following pools:

• Current loan pool includes current loans and loans overdue by less than 30 days.

• Watch-list loan pool includes loans showing early signs of potential deterioration in credit quality and require more attention from management.

• Problem loan pool includes loans overdue for more than 30 days, or loans transferred to the unit that works with troubled assets to devise restructuring plans, repossession of collateral, the initiation of judicial proceedings, etc.

Depending on the credit quality of the customer and the extent of the risk, the customer sales, margin and dynamics of the loan portfolio is analyzed on a monthly / quarterly basis.
Monitoring of retail loan portfolios is conducted by the Retail Risk Management Department every month-end or earlier based on need. Such monitoring includes tracking the following indicators: approval/reduction indicators for all segments (products, clients); late payments (both at different times and simultaneously); renewal rates (conversion of outstanding debt at different phases); information on contacts and promises to track collection efficiency; the level of losses for various periods by product and method validation; special pilot programs; maximum limits established for each of the retail portfolios; bad debt write-off rates for each product portfolio; debt collection for each product portfolio; evaluation of the stability of use of evaluation cards and indicators for all products using these cards; segmentation and effectiveness of verification.

Portfolio concentration limits are checked on a weekly basis, and the Main Credit Committee is informed. Furthermore, it is informed of situations in which the maximum limit is approached. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is in line with the position of Alfa-Bank and the structure of the portfolio limit.

Throughout 2012, Alfa-Bank paid special attention to working with doubtful and problem loans. In addition, the Committee on Corporate Customers Bad Loan Recovery monitored bad loans weekly: prospects for repayment, enforcement of collateral, litigation regarding cases of debt collection, terms of restructuring and requirements to provide additional collateral for loans.

**Monitoring credit risk**

The measures taken to control credit risk are aimed at securing the implementation of the policies and procedures employed by Alfa-Bank. For example, Alfa-Bank has implemented mechanisms to regulate credit risk, which contribute to effective risk management. In order to improve collection of debts on individual loans and for more effective monitoring of overdue loans, the Retail Risk Management Department introduced evaluation cards for collection of debts for various stages of the debt collection process and implemented stricter control of data on debt collection in various sectors.

**Reducing credit risk**

Alfa-Bank uses a wide range of techniques to reduce the credit risk of its lending operations, monitoring loss factors (such as losses from transactions with individuals, probability of default, loss due to non-fulfillment of obligations) and the scope of risk in the event of default, as well as systemic risk indicators, based on the portfolio.
At the transaction level, an assessment of a borrower’s ability to service the proposed level of debt is performed. Also, the Group obtains collateral, such as a mortgage, pledge of assets, or floating charge over inventories. Various forms of legal protection are used, such as netting agreements and covenants in commercial lending agreements, and credit enhancements techniques. Credit exposure is actively managed. Procedures are in place that ensure timely recognition of and prompt reaction to transactions showing signs of deterioration. Responses include reducing exposure, obtaining additional collateral, restructuring, or other steps as appropriate. The credit risk premium is included in the 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, credit risk is diversified in order to prevent excessive concentration. The portfolio concentration limit includes maximum exposure per borrower, industry concentration, maturity concentration limit, the limit of unsecured loans, and the internal rating limit. In 2012, the last two limits were non-binding but subject to monitoring in financial statements.

The size of the maximum credit risk is reflected in the carrying value of the financial assets in the consolidated statement of financial position. For issued guarantees and other credit obligations, the size of the maximum credit risk must equal the size of liabilities.

**Market risk**

Alfa-Bank takes on exposure to market risk. Market risk is the result of open positions in equity, currency and interest rate products exposed to general and specific market movements. Alfa-Bank manages its market risk through notional-based and risk-based limits for the sub-positions. The overall position of Alfa-Bank is split between Corporate and Retail Banking positions, Treasury position and Investment Banking position. The exposure of Corporate and Retail Banking operations to market risks is managed through the system of limits monitored by Treasury. Investment Banking operations are also exposed to market risk. This risk is managed using Value at Risk ("VaR") limits and critical loss limits established for the aggregate position of the investment business in shares, fixed-income instruments, foreign currency and derivative securities (treated as separate “trading positions”) and to manage individual trading positions. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. Alfa-Bank’s portfolio consists primarily of liquid, traded securities. There are two main incentives for transactions with derivatives: the need to hedge its own risk, principally using foreign currency, securities and interest rate derivatives, and client demand.
FINANCIAL RISK MANAGEMENT

Limits that are based on statistical risk levels are monitored on a daily basis by the Risk Management Department for the purpose of determining individual trade positions (foreign currency, equities, bonds and derivatives). Aggregate VaR for investment business positions is monitored by the Risk Management Department on a weekly basis. The limit for daily VaR with a 99% degree of credibility is 47 mln RUB. However, using this approach does not prevent losses above the said limits when changes in the market situation are more significant.

Risk of equity security price fluctuations

As noted above, Alfa-Bank uses VaR to quantify the risks attributed to the Investment Banking trading position of Alfa-Bank. The effectiveness of the VaR model is evaluated using tests that use historical data. Such testing provides the possibility of determining the number of loss-related incidents above VaR and to compare said number with the established degree of credibility.

The main advantage of VaR risk evaluation — using empirical evidence — is at the same time its principal defect. It is necessary to evaluate the changes in the market situation that may be too drastic and may cause a significant deterioration in Alfa-Bank’s position. The resulting data serve as an approximate value, illustrating possible losses (according to the existing scenario). Alfa-Bank uses stress testing in order to simulate the financial impact of various exceptional market scenarios on individual trading portfolios and Alfa-Bank’s overall position. Stress testing indicates the potential amount of losses, which may be incurred in the event of an emergency. VaR, which is a daily quantitative indicator of equity securities pricing, represents an evaluation with a degree of credibility of up to 99% on a horizon of 1 day of potential losses (this refers to the losses that could be incurred in a normal market environment if the current positions of the Alfa-Bank remained unchanged during one working day).

Currency risk

Alfa-Bank’s Treasury is responsible for the centralized management of foreign exchange risk of its balance sheet position. ALCO sets limits on open currency positions, which are monitored daily by the Treasury on the basis of management reports provided by the open currency position. Alfa Bank uses derivatives to manage the current and projected size of the risk arising from open foreign currency positions.

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 the amounts and timing of fixed-term
deposits and debt securities issued at fixed or floating interest rates. Due to changes in interest rates, Alfa-Bank’s liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. One of the objectives of Alfa-Bank is to minimize losses from unexpected adverse changes in interest margins.

The Alfa-Bank’s interest rate risk is managed by the Treasury within the limits set by ALCO. These limits are monitored on a weekly basis by the Assets Liabilities Management unit of the Treasury Department. ALCO sets two sensitivity limits. The first limit is set in terms of “present value to 100 basis point interest rate shift”, which measures the impact of a 100 basis point rise in interest rates along the various maturities on the yield curve on the present value of the Group’s assets, liabilities and off-balance-sheet instruments. The second limit is “earnings-at-risk to 100 basis point interest rate shift”, which measures the impact on the net interest revenue for the nearest year of a 100 basis point rise in interest rates along the various maturities on the yield curve. ALCO sets such limits for the Group’s Russian ruble, US dollar and euro positions and for the Group’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 US dollar and Russian ruble interest swaps.

Liquidity risk

Liquidity risk is defined as the risk of a company facing hardships when performing its duties related to financial commitments. Every day Alfa-Bank has to satisfy payment demands in respect of funds received from overnight deposits against current accounts, maturing deposits, loan disbursements, the margin and other demands related to financial instruments. Alfa-Bank does not maintain the amount of available funds necessary to meet all these demands, as experience suggests that the minimum level of reinvestment of maturing funds can be forecast with a high degree of probability. Liquidity risk is managed by Alfa-Bank’s Treasury and ALCO.

Alfa-Bank is committed to maintaining a stable funding base comprised primarily of amounts due to corporate and retail customer deposits, as well as debt securities in issue and due to other banks, and maintaining adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Alfa-Bank’s liquidity management requires a consideration of the level of liquid assets necessary to settle obligations as they come due, maintaining access to a number of funding sources, having plans for financing in case of an emergency, and monitoring liquidity ratios, which must be recorded in accordance with regulatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis following the require-
ments of the CB RF. Alfa-Bank calculates liquidity factors bi-monthly: (i) liquidity factor (M2), which is calculated as the ratio of high-liquid assets to customer funds; (ii) CBRF loans REPO cover ratio (ML2), which is calculated as the ratio of the accessible CBRF loan REPO amount (in accordance with CBRF directive 312-П) to customer funds.

Alfa-Bank also calculates the following liquidity ratios: acid ratio (N2), which is calculated as the readily obtainable assets to demand liabilities ratio; current liquidity ratio (N3), which is calculated as the liquid assets to liabilities (that come due within 30 calendar days) ratio; long-dated bank-liquidity (N4), which is calculated as the assets (that come due no earlier than in a year) to regulatory capital and liabilities (that come due no earlier than in a year) ratio.

The Treasury prepares the liquidity profile of financial assets and liabilities, as well as creating 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 inter-bank credit facilities in order to ensure sufficient liquidity borrowing.

Liquidity is monitored daily, and liquidity stress testing is carried out regularly under a variety of scenarios involving both normal and more severe market conditions. The Treasury produces a daily model of forecasted liquidity for different financial instruments. Various scenarios are tracked, including or excluding projected new lending. In order to forecast liquidity, information on overdue payments is revised regularly.
Alfa-Bank is Russia’s largest private bank in terms of total assets, total equity, customer accounts and loan portfolios. According to the audited IFRS financial statements for 2012, the Alfa Banking Group, which comprises OJSC Alfa-Bank as well as its subsidiary financial companies, had total assets of $45.9 bln, gross loans of $31.8 bln, and total equity of $4.2 bln. Net profit after tax for 2012 amounted to $829 mln.

The Alfa Banking Group’s corporate and retail client base has grown considerably over the last several years. As of January 1, 2013 the Alfa Banking Group served around 82,000 corporate and 8.9 mln retail customers, while the branch network expanded to 511 offices across Russia and abroad, including a subsidiary bank in the Netherlands and financial subsidiaries in the United States, the United Kingdom and Cyprus.
INFORMATION ON BANK COMPLIANCE WITH THE CODE OF CORPORATE CONDUCT


In its operations, Alfa-Bank is guided by the following principles of corporate conduct:

• providing shareholders with real opportunities to exercise their rights;

• ensuring implementation on the part of the Board of Directors of the strategic management of Alfa-Bank and its effective supervision over Alfa-Bank’s executive bodies, as well as the accountability of the Board of Directors to shareholders;

• ensuring that the company’s executive bodies are able to carry out effective management of the daily operations of Alfa-Bank within reason, in good faith and solely for the benefit of Alfa-Bank, as well as that the executive bodies are accountable to the Board of Directors of Alfa-Bank and its shareholders;

• ensuring timely disclosure of complete and accurate information about Alfa-Bank, including its financial position, performance, ownership and management structure, in order to enable informed decision-making on the part of shareholders and investors;

• taking into account the statutory rights of stakeholders, including employees of the company, and encouraging active cooperation between Alfa-Bank and stakeholders, in order to increase Alfa-Bank’s assets, the value of shares and other company securities, and create new jobs;

• ensuring effective monitoring of the financial and commercial operations of Alfa-Bank, in order to protect the legitimate rights and interests of shareholders;

• compliance with the law and ethical standards.
Founded upon universally recognized principles and norms of international law, the laws of the Russian Federation, applicable foreign law and common business practices, in 2012 Alfa-Bank developed and approved a new version of the Code of Corporate Conduct, the purpose of which is to define the standards for Alfa-Bank’s operations and the conduct of its employees, in order to maintain ethical standards, quality of service and convenience for customers, and increase the profitability, financial stability and efficiency of Alfa-Bank, its subsidiaries and affiliated entities.

The objectives of the Code are:

• Consolidation of the Mission and Corporate Values of Alfa-Bank;

• ensuring awareness on the part of Bank Employees of their personal responsibility to clients, business partners, shareholders and colleagues for fulfillment of their duties and their roles in the implementation of the Mission of Alfa-Bank;

• defining the principles of Alfa-Bank’s relationships with customers, business partners, state and municipal authorities, competitors and Employees of Alfa-Bank. Protecting the interests of shareholders, customers, business partners and Employees of Alfa-Bank.

The entire text of the current version of Alfa-Bank’s Code of Corporate Ethics is freely available at the following address: http://alfabank.ru/about/corporate_ethics/

Alfa-Bank recognizes that improving corporate conduct is the most important measure necessary to ensure the stability and success in the financial markets, along with maintaining high standards of corporate governance and business ethics, for successful commercial operations. One means of achieving this improvement could be the elaboration and introduction of new internal corporate governance standards. Having rescinded in 2012 its Code of Corporate Governance, Alfa-Bank is currently developing a new version of the Code, which will ensure complete transparency and high standards of corporate conduct.
PARTNERS

Alfa Insurance Group


It is part of the Alfa Group industrial and financial consortium, which includes companies such as Alfa-Bank, Alfa Capital, A1, Rosvodokanal, X5 Retail Group NV, Altimo, CTC Media and others.

Alfa Insurance Group has equity of more than 8.5 billion rubles. Under its license, the Group offers more than 100 insurance products, including life and accident insurance. It has more than four hundred regional offices in Russia.

The Alfa Insurance Group is accredited by major banks, including Sberbank of Russia, VTB, VTB 24, Gazprombank, Alfa-Bank, Agricultural Bank, Raiffeisen Bank, Bank of Moscow, MDM Bank and Unicredit, and it is included on the official list of organizations insuring the assets of these banks' clients.

Alfa Insurance Group collected premiums of 40.3 billion rubles in 2011, resulting in net profit of 1.2 billion rubles.

Main Principles

Alfa Insurance Group enjoys a well-earned reputation for reliability, as demonstrated by the reinsurance programs of the largest global players, including Munich Re, Swiss Re, Hannover Re, SCOR, GenRe, and Partner Re, as well as Lloyd’s of London, with which Alfa Insurance partners via international brokers Willis Limited, Marsh, AON Benfield and others.
Alfa Insurance is one of the five leaders on the Russian market. In April 2013, Fitch Ratings confirmed its A++ rating — the highest possible rating for reliability — on Alfa Insurance Group. Fitch also upgraded its outlook for Alfa Insurance from Stable to Positive and affirmed its A+ (rus) rating for financial stability on the national scale.

The Group is dedicated to improving its services and developing new insurance products to meet the needs of individual clients, and the success of these efforts has been recognized by market professionals.

Clients

Alfa Insurance counts more than 12 million individual and 323,000 corporate customers, including leading banks, major ship owners and carriers, concerns in the areas of nuclear power, metallurgy and mechanical engineering, representative offices of major foreign companies, and public and state organizations and institutions, such as Airport Vnukovo, TNK-BP, Aeroflot, Alfa-Bank, MMK, Russian Grids, RusHydro, Sheremetyevo International Airport, VimpelCom, Yokohama, Volgotanker and many others.

Recognition

In 2012, Alfa Insurance was a winner in five categories in the Russian insurance industry’s “Golden Salamander” awards. The company won in the categories of “Voluntary Health Insurance” and “Liability Insurance,” in addition to receiving three special awards for “Insurance Innovation of the Year: New Insurance Product” for creating the “No Fear of Floods” package product, “E-Commerce Insurance Project” for online insurance for airline passengers, and “Insurance Innovation of the Year: IT Project of the Year” for integrating a series of innovative systems.

The Alfa Insurance team’s professionalism has also received public recognition. Company executives took top rankings in the prestigious annual “Top 1000 Russian Managers” ranking, a joint project of
the Association of Managers of Russia and Kommersant Publishing House. In the final ranking, Alfa Insurance executives were recognized in six operational areas.

According to Trade Secret magazine — part of the Kommersant Publishing House — Alfa Insurance won first place in an independent ranking of the fastest-growing companies in the financial sector.

The “No Fear of Floods” packaged product was recognized at the annual Retail Finance Awards held by Retail Finance magazine, taking the top prize in the “Creative of the Year” category.


Alfa Insurance group won the prestigious Russian “IT Leader” information technology field prize in the “Insurance Company” category.

The Federal Agency for Mortgage Housing Lending awarded Alfa Insurance the prize “For Most Active Promotion of Mortgage Insurance” in the Russian insurance market.

Alfa Insurance won “Best Insurance Industry News Story in 2012” as part of the “Infopovod 2012” awards organized by the Russian Association of Public Relations and independent media research company Medialogia.

Alfa Insurance’s “Insuring the End of the World” project was selected by the management of Facebook, the world’s largest social networking site, for inclusion in the Facebook Studio project, a gallery of the world’s most interesting and creative social media projects. The Alfa Insurance brand is the first and only Russian brand to be featured in Facebook Studio.

**Alfa Capital Management Company**

Alfa Capital Management Company is one of Russia's market leaders in asset management, operating since 1996. Alfa Capital's major business lines include managing the assets of mutual funds, non-state pension funds, insurance companies and corporations, as well as individual trust management for large private investors. The Alfa Capital brand is synonymous with high-quality services in the asset management market.

According to the Expert RA rating agency, Alfa Capital MC is one of Russia’s top 10 management compa-
nies by total volume of funds under management and is ranked first on the market in trust management for retail clients. It is in the top 5 by net asset value among PIFs and IPIFs. www.alfacapital.ru

2012 — a year of achievements

In 2012, the company’s priorities included collaborating with strategic partners and recruiting new customers, particularly corporate customers; developing its product line, in particular by creating capital-protection products; and achieving a new level of customer service while maintaining and further developing existing loyalty programs. From the point of view of personnel development, our key tasks were developing a corporate culture, training employees and reinforcing the company’s HR brand. We also put a premium on developing IT systems, launching “Personal Account” services, compiling a data archive and improving IT infrastructure.

One promising new Alfa Capital product — Alfa-Profit — is a joint project with Alfa-Bank. Together with Alfa-Bank, Alfa Capital MC launched a new group of products combining the safety of a bank deposit with the high income-generating potential of the stock market.

Skoltech Fund Alfa Capital MC was one of two winners of the tender to manage the 10 billion ruble endowment of Skolkovo and the Massachusetts Institute of Technology.

Compliance with Citibank. According to due diligence carried out in October 2012, Alfa Capital MC was officially approved as a Citibank partner. The cooperative agreement between the two companies involves an agency agreement for Alfa-Bank to use its branch network to sell Citibank products. Sales are expected to begin in the second half of 2013.

“Personal Account.” Alfa Capital significantly upgraded and expanded the functionality of its online “Personal Account” service. Clients can now access their consolidated investment portfolio, combining all types of financial instruments. Clients of the management company will be able to monitor their investments on a daily basis, not only in mutual funds, but also in their asset management strategy and portfolio.

Financial performance. The company’s assets under management increased by 22% y/y, totaling 87.7 billion rubles as of December 31, 2012. The number of trust management clients grew by 54% over 2011, with 2,040 individual non-zero trust management accounts open in 2012. Alfa Capital MC has strengthened its leading position in the asset management segment. Similarly, as a result of a shift in the asset structure towards fixed-income instruments, client portfolios have become more stable, and in 2012 the company broke its all-time record for fees received. In 2012, profits before bonus payments totaled 111%.
HR Management. Last year, the Alfa Capital MC HR department continued to implement its personnel development program. It developed wide-ranging incentive programs for employees, including non-material incentives, regular group classes and training seminars. The company focused on performance management to help employees achieve their best. As part of this, the Department carried out a 360-degree assessment and comprehensive evaluation of staff performance, with each employee receiving an individual development plan. The increase in employee loyalty to the company is also worth noting: in three years, the percentage of personnel employed by Alfa Capital MC for five years or more has grown from 8% to 22%. In addition, employees ran 13 charitable projects in 2012 on funds they themselves raised.

Customer loyalty program. Traditionally, Alfa Capital has made a concerted effort to develop its client services and maintain customer loyalty. In 2012, the company launched a single internal call center to provide clients with comprehensive advice and carried out a survey of customer satisfaction. Also important was the Alfa Wealth loyalty program, providing premium services to wealthy clients at a number of partner companies. In 2012, the number of high-net-worth customers joining the Alfa Wealth program increased by 28%.

Market recognition

At the end of 2012, Alfa Capital MC’s professional operations received high scores and ratings from independent experts:


- AAA individual rating from National Rating Agency (NRA) for the highest reliability.


- Shares of the “Alfa Capital Precious Metals Open-Ended Mutual Investment Fund” took first place among the 418 funds rated in November by the National League of Managers.

- Shares of the “Alfa Capital Consumer Sector Open-Ended Mutual Investment Fund” led in terms of yield for 7 months in 2012, according to Investfunds.
• Shares of the “Alfa Capital Commodities Market Open-Ended Mutual Investment Fund” and the “Alfa Capital Bonds Plus Open-Ended Mutual Investment Fund” were the leaders in yield according to RBC’s March 2012 rating for risk/return ratio.

• “Alfa Capital Bond Plus Open-Ended Mutual Investment Fund” was recognized as the top bond fund in Forbes’ 2011 ranking.

• “Alfa Capital Reserve Open-Ended Mutual Investment Fund” was the 2011 leader by assets (net inflow) in 2011 in the Investfunds ranking.

• Shares of the “Alfa Capital Commodities Open-Ended Mutual Investment Fund” had the highest yield among open-ended Russian funds, according to the Investfunds 2011 year-end ranking.

• Alexander Spisivy was recognized as “CFO of the Year” at Financial Director magazine’s 4th Annual National Awards in the “Cost Optimization Program” category.

• Portfolio Manager Regina Girfanova was recognized as one of the top five portfolio managers by Forbes magazine.

• Portfolio Manager Evgeny Kochemazov was recognized by Forbes magazine as one of Russia’s top five bond strategy managers.

• Six Alfa Capital MC executives took top spots in the “Top-1000 Managers in Russia” ranking compiled by Kommersant Publishing House and the Russian Association of Managers.

Outlook for 2013

Alfa Capital MC’s strategy for 2013 includes ambitious targets. The priority business segments remain high-net-worth individuals, the retail segment and the corporate clients unit.

There are plans to establish and promote a corporate office in the asset management segment in 2013. Alfa Capital’s 2013 strategy in the individual trust management segment emphasizes working with HNWI, developing the Alfa Wealth program and improving quality of service. In the retail segment, the company will focus on improving the quality of management and maintaining its five largest mutual funds among the top three by yield.

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

• The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2012, 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 2012. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 29 March 2013.

• 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

• Management of the Group 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

• 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

• In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the Group for the year ended 31 December 2012 are consistent, in all material respects, with those consolidated financial statements, on the basis described in Note “Basis for preparation”.

29 March 2013
Moscow, Russia
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>In millions of US Dollars</th>
<th>31 December 2011</th>
<th>31 December 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>5 218</td>
<td>2 707</td>
</tr>
<tr>
<td>Mandatory cash balances with central banks</td>
<td>444</td>
<td>316</td>
</tr>
<tr>
<td>Trading securities</td>
<td>1 098</td>
<td>1 206</td>
</tr>
<tr>
<td>Repurchase receivables relating to trading securities</td>
<td>1 869</td>
<td>568</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>3 298</td>
<td>2 242</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>30 564</td>
<td>21 804</td>
</tr>
<tr>
<td>Investments</td>
<td>1 963</td>
<td>1 381</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>555</td>
<td>576</td>
</tr>
<tr>
<td>Other assets</td>
<td>364</td>
<td>221</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>559</td>
<td>340</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>45 932</td>
<td>31 365</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other banks</td>
<td>5 502</td>
<td>2 384</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>26 842</td>
<td>18 254</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>5 949</td>
<td>4 619</td>
</tr>
</tbody>
</table>

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

#### Syndicated and other debt
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>125</td>
<td>396</td>
</tr>
</tbody>
</table>

#### Subordinated debt
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 170</td>
<td>1 335</td>
</tr>
</tbody>
</table>

#### Other financial liabilities
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>741</td>
<td>533</td>
</tr>
</tbody>
</table>

#### Other liabilities
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>361</td>
<td>353</td>
</tr>
</tbody>
</table>

#### Deferred tax liability
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>90</td>
<td>56</td>
</tr>
</tbody>
</table>

#### TOTAL LIABILITIES
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>41 780</td>
<td>27 930</td>
</tr>
</tbody>
</table>

### EQUITY

#### Share capital
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 265</td>
<td>1 265</td>
</tr>
</tbody>
</table>

#### Fair value reserve for investments available for sale
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>68</td>
<td>(15)</td>
</tr>
</tbody>
</table>

#### Revaluation reserve for premises and equipment
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25</td>
<td>28</td>
</tr>
</tbody>
</table>

#### Cumulative translation reserve
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(403)</td>
<td>(416)</td>
</tr>
</tbody>
</table>

#### Retained earnings
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 196</td>
<td>2 572</td>
</tr>
</tbody>
</table>

#### Net assets attributable to the Company’s owners
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4 151</td>
<td>3 434</td>
</tr>
</tbody>
</table>

#### Non-controlling interests
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

#### TOTAL EQUITY
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4 152</td>
<td>3 435</td>
</tr>
</tbody>
</table>

#### TOTAL LIABILITIES AND EQUITY
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45 932</td>
<td>31 365</td>
</tr>
</tbody>
</table>

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

#### In millions of US Dollars

<table>
<thead>
<tr>
<th>In millions of US Dollars</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Interest income</td>
<td>3 110</td>
<td>2 625</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(1 395)</td>
<td>(1 169)</td>
</tr>
<tr>
<td>Expenses directly attributable to leasing and deposit insurance</td>
<td>(37)</td>
<td>(42)</td>
</tr>
<tr>
<td>Net margin</td>
<td>1 678</td>
<td>1 414</td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>(95)</td>
<td>(148)</td>
</tr>
<tr>
<td>Net margin after provision for loan impairment</td>
<td>1 583</td>
<td>1 266</td>
</tr>
</tbody>
</table>
The consolidated financial statements, from which the summary consolidated financial statements have been derived, are available from ABH Financial Limited upon request.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee and commission income</td>
<td>769</td>
<td>617</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>(189)</td>
<td>(162)</td>
</tr>
<tr>
<td>Gains less losses arising from trading securities</td>
<td>-</td>
<td>(42)</td>
</tr>
<tr>
<td>Gains less losses arising from interest based derivatives</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Gains less losses arising from foreign currencies and precious metals</td>
<td>(44)</td>
<td>(18)</td>
</tr>
<tr>
<td>Gains less losses arising from investments</td>
<td>(3)</td>
<td>49</td>
</tr>
<tr>
<td>Gains less losses arising from acquisition of own debts</td>
<td>(5)</td>
<td>-</td>
</tr>
<tr>
<td>Other provisions</td>
<td>(43)</td>
<td>(6)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(1 039)</td>
<td>(977)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>1 069</td>
<td>762</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(240)</td>
<td>(121)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>829</td>
<td>641</td>
</tr>
<tr>
<td>Other comprehensive income/(loss):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available for sale investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Fair value gains less losses during the year</td>
<td>84</td>
<td>(73)</td>
</tr>
<tr>
<td>– Reclassification adjustments for losses included in profit or loss</td>
<td>4</td>
<td>(4)</td>
</tr>
<tr>
<td>Effect of translation of the financial statements of foreign operations</td>
<td>154</td>
<td>(161)</td>
</tr>
<tr>
<td>Net change in hedge of net investment in foreign operations</td>
<td>(141)</td>
<td>76</td>
</tr>
<tr>
<td>Income tax recorded directly in other comprehensive income</td>
<td>(5)</td>
<td>7</td>
</tr>
<tr>
<td>Other comprehensive loss for the year</td>
<td>96</td>
<td>(155)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>925</td>
<td>486</td>
</tr>
<tr>
<td>Profit for the year attributable to the Company’s owners</td>
<td>829</td>
<td>641</td>
</tr>
<tr>
<td>Total comprehensive income for the year attributable to the Company’s</td>
<td>925</td>
<td>486</td>
</tr>
</tbody>
</table>
The consolidated financial statements, from which the summary consolidated financial statements have been derived, are available from ABH Financial Limited upon request.

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<table>
<thead>
<tr>
<th>In millions of US Dollars</th>
<th>Attributable to the Company's owners</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>Fair value reserve for investments available for sale</td>
<td>Revaluation reserve for premises and equipment</td>
<td>Cumulative translation reserve</td>
</tr>
<tr>
<td>1 Balance as at 1 January 2011</td>
<td>1 265</td>
<td>55</td>
<td>30</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other comprehensive loss for the year</td>
<td>-</td>
<td>(70)</td>
<td>-</td>
</tr>
<tr>
<td>Total comprehensive (loss)/ income for the year</td>
<td>-</td>
<td>(70)</td>
<td>-</td>
</tr>
<tr>
<td>Realised revaluation reserve</td>
<td>-</td>
<td>-</td>
<td>(2)</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of subsidiary</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2 Balance as at 31 December 2011</td>
<td>1 265</td>
<td>(15)</td>
<td>28</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other comprehensive loss for the year</td>
<td>-</td>
<td>83</td>
<td>-</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>-</td>
<td>83</td>
<td>-</td>
</tr>
<tr>
<td>Realised revaluation reserve</td>
<td>-</td>
<td>-</td>
<td>(3)</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of subsidiary</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3 Balance as at 31 December 2012</td>
<td>1 265</td>
<td>68</td>
<td>25</td>
</tr>
</tbody>
</table>
## CONSOLIDATED STATEMENT OF CASH FLOWS

<table>
<thead>
<tr>
<th>In millions of US Dollars</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>3 108</td>
<td>2 684</td>
</tr>
<tr>
<td>Interest paid, other than on debt securities issued, syndicated and other debt and subordinated debt</td>
<td>(902)</td>
<td>(693)</td>
</tr>
<tr>
<td>Expense directly attributable to the lending operations</td>
<td>(37)</td>
<td>(42)</td>
</tr>
<tr>
<td>Fees and commissions received</td>
<td>787</td>
<td>619</td>
</tr>
<tr>
<td>Fees and commissions paid</td>
<td>(193)</td>
<td>(163)</td>
</tr>
<tr>
<td>Net income received from trading securities</td>
<td>(31)</td>
<td>(37)</td>
</tr>
<tr>
<td>Net income received from trading in foreign currencies</td>
<td>(176)</td>
<td>85</td>
</tr>
<tr>
<td>Net income received from interest rate derivatives</td>
<td>3</td>
<td>(6)</td>
</tr>
<tr>
<td>Other operating income received</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>Staff costs paid</td>
<td>(595)</td>
<td>(550)</td>
</tr>
<tr>
<td>Other operating expenses paid</td>
<td>(352)</td>
<td>(365)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(235)</td>
<td>(59)</td>
</tr>
<tr>
<td>Cash flows from operating activities before changes in operating assets and liabilities</td>
<td>1 401</td>
<td>1 499</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in mandatory cash balances with central banks</td>
<td>(104)</td>
<td>(151)</td>
</tr>
<tr>
<td>Net decrease/(increase) in trading securities and repurchase receivables</td>
<td>(1 104)</td>
<td>486</td>
</tr>
<tr>
<td>Net decrease/(increase) in due from other banks</td>
<td>(984)</td>
<td>497</td>
</tr>
<tr>
<td>Net increase in loans and advances to customers</td>
<td>(7 792)</td>
<td>(6 126)</td>
</tr>
<tr>
<td>Net increase in other assets and other financial assets</td>
<td>(185)</td>
<td>(41)</td>
</tr>
<tr>
<td>Net increase in due to other banks</td>
<td>2 932</td>
<td>370</td>
</tr>
<tr>
<td>Net increase in customer accounts</td>
<td>7 633</td>
<td>2 181</td>
</tr>
<tr>
<td>Net increase/(decrease) in other liabilities and other financial liabilities</td>
<td>66</td>
<td>17</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash used in operating activities</td>
<td>1 863</td>
<td>(1 268)</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of investments available for sale</td>
<td>(1 366)</td>
<td>(620)</td>
</tr>
<tr>
<td>Proceeds from disposal and redemption of investments available for sale</td>
<td>847</td>
<td>1 029</td>
</tr>
<tr>
<td>Acquisition of investments at fair value through profit or loss</td>
<td>(19)</td>
<td>-</td>
</tr>
<tr>
<td>Disposal of investments at fair value through profit or loss</td>
<td>14</td>
<td>40</td>
</tr>
<tr>
<td>Acquisition of investments held to maturity</td>
<td>-</td>
<td>(49)</td>
</tr>
<tr>
<td>Proceeds from redemption of investments held to maturity</td>
<td>47</td>
<td>251</td>
</tr>
<tr>
<td>Acquisition of premises, equipment and intangible assets</td>
<td>(281)</td>
<td>(118)</td>
</tr>
<tr>
<td>Proceeds from disposal of premises, equipment and intangible assets</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Net cash from/(used in) investing activities</td>
<td>542</td>
<td>(631)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from syndicated and other debt</td>
<td>-</td>
<td>247</td>
</tr>
<tr>
<td>Repayment of syndicated and other debt</td>
<td>(279)</td>
<td>(32)</td>
</tr>
<tr>
<td>Interest paid on syndicated and other debt</td>
<td>(18)</td>
<td>(12)</td>
</tr>
<tr>
<td>Proceeds from debt securities issued</td>
<td>2 597</td>
<td>2 323</td>
</tr>
<tr>
<td>Repayment of debt securities issued</td>
<td>(1 394)</td>
<td>(1 750)</td>
</tr>
<tr>
<td>Interest paid on debt securities in issue</td>
<td>(341)</td>
<td>(324)</td>
</tr>
<tr>
<td>Repayment of subordinated debt</td>
<td>758</td>
<td>-</td>
</tr>
<tr>
<td>Interest paid on subordinated debt</td>
<td>(13)</td>
<td>(9)</td>
</tr>
<tr>
<td>Net cash from financing activities</td>
<td>1 196</td>
<td>324</td>
</tr>
<tr>
<td>Net (decrease)/increase in cash and cash equivalents</td>
<td>2 319</td>
<td>(402)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>2 707</td>
<td>3 182</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>192</td>
<td>(73)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>5 218</td>
<td>2 707</td>
</tr>
</tbody>
</table>
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
CORPORATE DIRECTORY

General Banking License № 1326 issued by the Central Bank of Russia on January 29, 1998

Corporate Head Office

27 Kalanchevskaya Street
107078, Moscow
Tel.: + 7 495 620 91 91
+ 7 495 974 25 15
Telex: 412089 ALFA-BANKRU
S.W.I.F.T.: ALFA-BANK RU MM
E-mail: mail@alfabank.ru
www.alfabank.com
www.alfabank.ru

Investor Relations and Corporate Structures

Deputy Chief Financial Officer
Svetlana Demyashkevich
Tel.: +7 495 795 36 41
Fax: +7 495 786 48 72
E-mail: ir@alfabank.ru

Research

Tel./ Fax: + 7 495 783 50 05
E-mail: mail@alfabank.ru

Derivatives And Fixed Income

Managing Director
Head of Derivatives And Fixed Income
Simon Vine
Tel.: + 7 495 792 58 44
+ 7 495 788 03 09
Fax: + 7 495 788 67 17
E-mail: mail@alfabank.ru

Equities

Managing Director
Head of Equities
Michael Pijiolis
Tel.: + 7 495 795 36 49
Fax: + 7 495 745 78 97
E-mail: mail@alfabank.ru

Corporate-Investment Banking

Head of Corporate-Investment Banking
Vladimir Tatarchuk
Tel.: + 7 495 795 36 36
Fax: + 7 495 745 87 07
E-mail: mail@alfabank.ru

Retail Business Lending Department

Head of Retail Business
Alexey Korovin
Tel.: + 7 495 795 36 45
Fax: + 7 495 788 69 34
E-mail: mail@alfabank.ru

Financial Institutions

Head of International & Trade Finance
Dmitri Minaev
Tel.: + 7 495 792 58 40
Fax: + 7 495 792 58 43
E-mail: mail@alfabank.ru
Media and Public Relations

Director for Communications and PR
Leonid Ignat

Tel.: + 7 495 788 69 79
Fax: + 7 495 788 69 81
E-mail: mail@alfabank.ru

Alfa-Bank Ukraine

4/6 Desyatinnaya St. Kiev
01025 Ukraine
Tel.: + 38 044 490 46 00
Fax: + 38 044 490 46 01
E-mail: mail@alfabank.kiev.ua

Alfa Capital Markets (UK)

Chief Executive Officer
Simon Roache

14th Floor
1 Angel Court
London EC2R 7HJ
United Kingdom
Tel. + 44 (0) 20 7588 8400
Fax + 44 (0) 20 7382 4170
E-mail: info@Alfa-Bank-cm.com

Amsterdam Trade Bank N.V.

Chief Executive Officer
Pavel Gorbatevich

475 Herengracht
1017 BS Amsterdam
P.O. Box 16628
1001 RC Amsterdam
The Netherlands
Tel. + 31 (0)20 5209 209
Fax + 31 (0)20 5209 21
info@atbank.nl
www.atbank.nl

Alforma Capital Markets Inc. (USA)

President
David Denson

540 Madison Avenue
30th Floor
New York NY 10022
United States
Tel.: + 1 212 421 75 00
Fax: + 1 212 421 86 33
E-mail: ddenson@alfa-usa.com