THE POWER
OF DOING BETTER

ANNUAL REPORT
2015
For Alfa-Bank, 2015 was another successful period of dynamic development, in which competitive advantages gained over a long period of time once again delivered strong results in corporate and retail operations. Potential and current clients see the Bank as an unfailing partner that is constantly moving forward and self-improving to offer convenient and popular services, modern functionality and professional staff.

**ALFA-BANK 2015**

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<th>countries</th>
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<tr>
<td>branches and offices</td>
<td>745</td>
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<tr>
<td>total assets, USD million*</td>
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* For the purposes of this report, the term «Alfa-Bank» is used to describe ABH Financial Limited and its subsidiaries.
ALFA-BANK’S AWARDS IN 2015

12.2015
Alexey Marey — Bank Manager of the Year
The trade journal Retail Finance held its 9th annual Retail Finance Awards on 9 December 2015 in Moscow. Alexey Marey, Chief Executive Officer and Member of the Board of Directors and Executive Board was awarded the main prize in the category «Best Bank Manager of the Year» as determined by the journal’s editors.

09.2015
Alfa-Bank — best bank in Russia for affluent clients according to Forbes
Alfa-Bank’s А-Club topped the Forbes rating «Best Private Banks and Wealth Managers» in the category «Russian Bank for Clients with Assets up to USD20M».

08.2015
Alfa-Bank won four categories in the VISA payment system global competition
Alfa-Bank won four categories in the VISA Global Service Quality Awards, an annual competition among the global payment system’s member banks. At year-end 2014, Alfa-Bank was named the world’s best bank in terms of the share of approved transactions, best in Russia and in the world in terms of «effectiveness of card risk management» and also in terms of «disputed transaction-to-turnover ratio».

07.2015
Alfa-Bank — best bank for premium clients according to the banking community
Frank Research Group named Alfa-Bank the best bank for premium clients according to the banking community. The rating was compiled on the basis of interviews with market participants. Out of 19 respondents, 11 rated their competitors’ programs, with Alfa-Bank being the leader according to market players. Additionally, Alfa-Bank scored second overall in «Best Bank for Premium Clients 2015» rating.

Alfa-Bank joined the Top-50 European Banks ranking for volume of debit card transactions
According to a survey conducted by the Nilson Report, the global leader in ratings among companies providing bank cards and POS-terminal solutions, Alfa-Bank entered the Top-50 European Banks ranking by the volume of debit card transactions in 2014, only the second Russian bank to appear on the list. At the end of last year, the bank had over 4 million active debit cards, accounting for over USD6B in purchases.

03.2015
Alfa-Bank — best bank for affluent clients according to Frank RG
According to Frank Research Group’s rating of 16 banks in Russia offering Private Banking & Wealth Management services, Alfa-Bank is the best bank for affluent clients in the country.

06.2015
Alfa-Bank’s new web-site ranked first among digital projects in Tagline ranking for 2014-2015
Alfa-Bank’s new web-site was named an outstanding digital project of 2014-2015. This was decided by the experts of the largest analytical agency Tagline in the course of their annual survey of the Russian digital production market. The Top-100 Russian digital production (web studios, web productions) ranking is in its 10th year, is the only survey of its kind and is widely popular in the professional community.

03.2015
Alfa-Bank again the best
Alfa-Bank won three categories in a row at the Third Annual Awards for Innovations and Achievements in Financial Sector for «Banking» organized by the journal Banking Survey. For the second year running, Alfa-Bank has won the «Most Innovative Bank» category as the financial institution introducing the most up-to-date and cutting-edge technologies in its activities.
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This attitude to client services brings excellent results — existing clients are using Bank services more actively while other companies and individuals decide to join the ranks. The clientele has been growing year on year. Our mass and medium-sized corporate business segments exhibited record growth in their clientele in 2015, while the retail business again bolstered its standing in the most reliable and financially attractive upper segments.

Indeed, first and foremost Alfa-Bank is a financial institution successful at providing quality services to individuals and legal entities. At the same time, continuous investment in service quality, technological solutions and team development give us an opportunity to support charity projects. The Bank has always been a socially responsible institution, not only looking after its clients and employees, but also extensively supporting culture and art, encouraging volunteer initiatives and providing financial assistance to disadvantaged groups. Support of talented youth is an essential area of social and charity work of the Bank. Apt students from major universities in Russia receive Bank scholarships and an opportunity to begin their career with a leader in the Russian financial services market.

2015 displayed the strengths and weaknesses of most Russian companies. For Alfa-Bank, it was another successful period of dynamic development, in which competitive advantages gained over a long period of time once again delivered strong results in corporate and retail operations. Potential and current clients see the Bank as an unfailing partner that is constantly moving forward and self-improving to offer convenient and popular services, modern functionality and professional staff.

Next year will not be easy for the Russian economy, but this creates new opportunities for a financial institution as strong as Alfa-Bank: competition for quality clientele is always won by the worthy, and our Bank, the first private bank in Russia, occupies a special place amongst those.
The 2015 business results of Alfa-Bank have once again demonstrated that a sound development strategy supported by daily efforts, strong focus on corporate culture and robust credit risk management may secure high achievements for an entity even in a complicated economic situation. In 2015, the Russian banking sector as a whole saw rapidly shrinking profits. Alfa-Bank’s profits amounted to about 20% of the whole sector’s total returns. According to IFRS net profit of the Alfa Banking Group increased 15 times comparing with the previous year and amounted to USD 480 mln. This serious achievement was definitely driven by the Bank’s development strategy and the consistent implementation thereof.

When developing the strategy, we focused on a number of key issues. First of all, our strategy is aimed at robust and appropriate management of credit risks. In the current economic environment, this issue becomes a priority for all financial institutions. For Alfa-Bank, it has been a priority for many years already. In 2015, we had a further chance to appreciate a thoughtful approach to credit policy, particularly proper management of corporate debt, high performance in debt recovery and credit risk control in retail lending. On a year-on-year basis, the capital of the Alfa-Bank Banking Group increased to USD 4 344 mln from USD 4 296 mln. Capital adequacy ratio and Tier I capital are both maintained above the relevant Basel I requirements. In 2015, each of these figures gained 4 p.p. and reached 21.7% and 16.8% respectively, thus proving the reliability and stability of the Bank even in the difficult economic environment.

Unlike other institutions, which have just recently focused on risk-free return, the Bank has been prioritizing improving the share of fee income in total revenue for years. According to IFRS net fee and commission income increased by 12.5% in ruble terms, and its share in operating profit before provisioning remained high — more than 25%. Based on the results of 2015, Alfa-Bank ranks third among Russian banks in terms of fee income, with more than 5% market share of all fees collected by banking institutions domestically. Only two state-owned banks, Sberbank of Russia and VTB (an international financial group), place ahead of us in this category. This result was achieved mostly due to material expansion of our client base, primarily in the mass business and medium corporate segments. For these clients, Alfa-Bank strives to become a convenient settlement bank, a «daily bank» and a key financial partner. The year’s results demonstrate that the Bank has been successful in this task, as an increasing number of companies are entrusting us with transactions crucial to the operation of their businesses.

In particular, the number of Mass Business clients grew significantly in 2015, to nearly 220,000 companies and individual entrepreneurs. The market share in this segment increased by nearly one half from 3% to 4.4%. As for corporate business, this segment shows considerable growth of each important indicator as compared to 2014: the client base reached nearly 30,000, while the risk free return exceeded the target and totaled USD 72.7 mln according to the management reports.

Achievements in Retail Banking are no less impressive. The Bank remains the second Russian bank in terms of on-call deposits but has expanded its average market share in the segment from 7.2% to 8.1%. The Bank’s 2015 IFRS statements show that the funds available from on-call deposits increased by 10% excluding FX effect. The most extensive growth was shown by the Bank’s most prioritized and financially stable «senior» client segments. The total number of individuals served by the Bank exceeded 13 mln as of the year end. It is worth noting that, along with retention of strong positions in the retail lending segment, Alfa-Bank has been successfully tackling the task of increasing the share of risk-free income in operating profit of Retail Banking, i.e. the fee and commission income from service packages, insurance commissions and other similar operations.

Several important events of 2015 further proved that Alfa-Bank is officially recognized as one of the country’s leading financial institutions. For one, the Bank of Russia listed Alfa-Bank among the strategically important banks. This list contains only ten credit institutions, which account for more than 60% assets of the banking system. Alfa-Bank’s place among such banks is a direct and logical result of its long-term operation as a leader in the country’s banking sector.

I would like to emphasize another event which is particularly important for the development of the Bank’s large corporate business and highlights its prevailing role in this market. In 2015, Alfa-Bank was appointed one of the authorized banks for the Program to Support Investment through Project Finance, approved by the Russian government in late 2014. This Program is aimed to promote investments in the highest priority areas of the economy. Alfa-Bank was among the first banks to take part in the Program by financing Rusagro Primorie Ltd, a representative of the strategically important agricultural sector, and
subsequently to another Rusagro project Znamenskiy Sugar Factory Ltd. The agricultural sector is a priority area both for Russia and the Bank. Alfa-Bank devotes considerable efforts to development of this sector, thus contributing to the prosperity of the Russian economy.

The engagement with Rusagro provides just one example of the Bank's work with largest Russian companies. Our business relationships with major clients such as Lukoil and the refining company TAOI-NK are a strong trend of our corporate business. Last year, Alfa-Bank became a key partner bank of Lukoil by lending it about USD 750 mln. We provided TAOI-NK with a credit line amounting to USD 600 mln. Cooperation between the Bank and these leading oil market players is of great importance for all parties involved.

Also, last year marked another significant event: the Bank entered loan subordination agreements with the Deposit Insurance Agency (DIA, a state-owned corporation). Alfa-Bank was transferred federal loan bonds (FLB) of five issuances with a total nominal value of RUB 62 788 mln.

The Bank is known as a reputable player on the Russian and global debt markets. In 2015, Alfa-Bank has successfully issued 3-year term Eurobonds of USD 500 mln at a record-low interest rate for comparable placements by Russian private banks — 5.60%. This placement constitutes a significant primary public offer of Eurobonds for Russian financial institutions in 2015. The final bid book comprised more than 180 offers from investors with a broad geographic spread: England, Germany, France, Switzerland, and even Taiwan and Korea. Such an excess demand demonstrates that the Bank is able to enjoy continuous access to global debt markets at competitive rates of return and support from investors worldwide.

The international recognition of Alfa-Bank is further confirmed by its establishment of partner relationships with Auerbach Grayson Company, a US company serving the interests of local institutional investors on the global market. This partnership will open new prospects for the expansion of business by our Investment Banking division both in and outside Russia. The results of the Investment Banking sector deserve special attention. In 2015, this unit has earned a record-breaking operating profit, which exceeded both the previous years’ results and the targets set for 2015. This success was driven by a creative approach to the team’s work and, of course, the synergy achieved through close cooperation of our experts with strategic sector Corporate Banking clients.

In 2015, Alfa-Bank became the number one book-runner among Russian banks and the number six among global players in the CIS markets. The Bank’s leadership in the syndicated lending market is evidenced by its large market share, which reached 5% last year, i.e. three times more the 2014 results. I would also specifically emphasize the success reached by the Bank on the global Forex market: as shown by the globally recognized Euromoney FX Survey 2015, in the last year we moved from the high position of 36th to the even more honorable rank of 31st. Alfa-Bank is the only Russian bank in this list of 50 world market leaders. In terms of its market share in Central and Eastern Europe, Alfa-Bank joined the top-5 banks, which is a very strong result.

In 2015, the Bank updated its strategy consistently with the client-focused business policy we have been pursuing for years. The new strategy, called Alfa 3.0, has been designed to facilitate the building of our client-centered financial organization, with the main focus on clients’ needs and wants rather than bank products and services. With this focus, the clients become the starting point of any relationship they have with the financial institution they have selected for servicing their daily needs. Another unique feature of this strategy is the combination of the most advanced technologies and online transactions with offline client service in the Bank’s offices. By focusing on digitalization of our business by computerizing the most important processes and reducing the non-constructive or excessive in-person operations, we make the Bank convenient for our clients as much as possible by sparing them visits to the Bank’s office and allowing as many as possible operations to be effected on their own. At the same time, we recognize the traditional methods of working and client behavior in our country and understand that offline, in-person services is also in demand. This approach perfectly fits our Alfa 3.0 strategy, which is intended to develop strong and credible long-term relations with our clients based on the model they find useful and comprehensible.

Client relationships, which may include cooperation and even partnership, are normally not limited to an ordinary set of financial services. Small businesses provide especially illustrative example of this fact. Three years ago we established a Client Club. This platform unites thousands of legal entities both individual entrepreneurs and small businesses serviced by Alfa-Bank countrywide and provides them with a practical opportunity to find partners, suppliers and potential customers. The Club arranges special meetings and workshops to promote the growth of our clients and enhance their business skills. Last year, the Club became accessible online at club.alfabank.ru. This resource is expected to grow rapidly in 2016 to enable our clients to access the Club and enjoy all of its benefits remotely.

Alfa-Bank has been one of the leading banks in terms of online client servicing for many years. Development of the online service channels is one of our strategic priorities. In 2015, the Bank spared no efforts in this area, with a primary aim to extend opportunities for online services to small and medium businesses. Projects implemented last year included the significant upgrade of the Alfa Business Online features and its integration with the full-scale exchange control service, which enabled the Bank to considerably widen its client base in this important segment.

Considering the abundant opportunities that online banking presents for business, the Bank intends to further develop its relationships with small and medium companies not only by growing the client base where we have branches, but also by using our extensive IT development and application experience to develop the online service model to enable the Bank to operate even where we have no brick-and-mortar presence. This model will be launched in 2016 and is expected to attract more than 2 mln new clients.

I would specifically highlight the enormous role of modern technologies as the drivers of high achievements in today’s financial world. Ensuring reliability, stability and smooth operation of all banking systems, on one hand, and flexibility in implementation of new solutions and introduction of new products, on the other, is what provides Alfa-Bank with unique competitive advantages. For many years, we have been investing a lot in the Bank’s advanced technologies to help achieve its brilliant results. We are committed to pursuing this policy in future.
Adaptability is one of the key performance drivers for businesses. The financial world is changing rapidly. In the current economic environment, the margins for providing banking services are in decline, while the competition for good borrowers is increasing, especially in the large and medium corporate segments. Therefore, a crucial condition of success for any bank is to skillfully manage its cost structure, strive to achieve the most suitable cost-to-income ratio, as well as to provide its clients with hi-tech services relieving them of visiting offices and accelerating the critical processes for the bank including, among other things, account management or lending processes. Such technologies have been widely launched by the Bank in 2015.

In 2015, Alfa-Bank demonstrated the increase of operating efficiency – the costs-to-income ratio was significantly reduced (to 43%) according to IFRS statements as of December 31, 2015 (end of 2014: 45.8%). It became possible because of implementation of electronic workflow, launching a Knowledge Base which contains all necessary operating documents, modernization of the staff size management model and, of course, adopting of the culture of continuous improvements which are intended to reduce costs of bank transactions locally without detriment to their quality.

I would like to stress once again that the Bank owes the 2015 results to the whole team. The daily growth of our success is warranted by the unique corporate culture of the Bank designed to engage all staff levels in our work, the improved team efforts and the continuous development of professional skills. In 2015, the Bank further focused its efforts on the development of its corporate culture in conformity with its Alfa 3.0 strategy and upgraded behavior models consistently with such strategy. However, the main values and concepts of the Bank, such as cooperation and commitment to change, important success drivers in today’s fast-paced world, remain unchanged.

In 2016, Alfa-Bank expects to enhance its leadership in the Russian banking sector. Having updated its development focuses in consistency with the current economic situation and adopted the Alfa 3.0 client-oriented strategy last year, the Bank was able to considerably increase its active client bases in the selected segments. This work will go on in 2016. For Corporate Banking, the Mass and Medium client segments will remain the key priority, whereas for Retail Banking it will continue to be «senior» clients. Competitive advantages of the Bank allow it to attract new credible clients and increase the share of risk-free return in its operating income. The Bank managed to achieve all targets of 2015 and even exceed expectations in its priority areas. We believe this trend will continue in 2016, and target the further growth of risk-free returns, on-call resources available in Retail Banking, the market share of the Bank in high-priority segments, and expect the Bank to maintain its current positions on the loan markets.

Every year we set new targets and achieve them, thus showing the loyalty of the Bank to its strategic model of development. This model was derived many years ago and proves efficient every time. Its key secret of success is that it is designed specifically for our clients by foreseeing their needs rather than only meeting their expectations. This means that our employees come to work every day to ensure that tens of thousands of companies and millions of Russian citizens can safely entrust the management of their funds to their reliable partner Alfa-Bank, the first private bank of Russia.
OVERVIEW OF RUSSIAN ECONOMY AND BANKING SECTOR

Global Context in 2015

It would not be an exaggeration to call last year difficult for the global economy. The emerging market (EM) segment was particularly unpopular, as demonstrated by the divergent financial market dynamics of developed and emerging economies: since 2010, the MSCI Emerging Markets Index has decreased 29%, while S&P 500 has gained 56% (Figure 1). Two factors drove the low appetite for EM risk. First, some EM countries accumulated excessive debt, which became a threat to their financial stability. Second, other EMs appeared vulnerable due to their excessive dependence on oil exports in an environment of low oil prices.

Last year, almost all developed countries faced challenges to their models of economic growth. In the US, it became increasingly difficult for the Federal Reserve to set its economic policy agenda based solely on domestic factors. Although the US labor market was sufficiently robust for an interest rate increase, and allowed the Federal Reserve to raise its funds rate to 0.5% in December 2015, further tightening of monetary policy is not a given, due to the weakness of the global financial system. In Europe, the ECB continued to support the economy with monetary measures. Indeed, the Eurozone monetary authority made its key rate negative in 2015. However, this failed to greatly affect the exchange rate dynamic or the main growth indicators of Europe. The European decision-making landscape has also been dominated by non-monetary risks, such as the migration crisis and the challenges to intra-European cooperation. The latter was reflected in the thorny negotiations on financial aid to Greece in spring 2015, and continues to be so in the forthcoming referendum on United Kingdom membership of the EU in June 2016.

In Japan, the economic politics of Prime Minister Shinzo Abe face criticism, as the substantial increase of sovereign debt in recent years has failed to ignite economic growth.

China came as a negative surprise for the markets in 2015, as the trade and growth indicators deteriorated. The People’s Bank of China in August 2015 allowed the renminbi to devalue, which piled stress onto commodities markets and led to the continuation of their downward cycle (Figure 2). This also negatively affected the Russian financial markets: although they had faced significant capital outflow since 2014, the economic recovery was delayed. While the RTS lost only 4% in 2015, this figure masks the market’s high volatility, which included a recovery in the first half of the year followed by a slump in 2H15.
Economic indicators — 2015 results

It might be surprising to say, but 2015 showed the Russian economy to be resistant to external shocks. It contracted 3.7% y/y, compared with a 7.8% y/y GDP contraction in 2009 after a comparable decline in oil prices (75% from peak levels in 2008-2009 vs. 69% in 2014-2015). Furthermore, this outcome was achieved amid a tight fiscal policy: in 2009, expenditures grew 27% y/y, double the rate of annual inflation, but in 2015, the expansion was only 5% y/y, with average inflation at 16% y/y.

Such a result was to a greater extent due to the CBR decision to free float the ruble, which allowed the country to avoid a liquidity crisis and thus mitigated the impact of the downturn on the real sector. The gross accumulation of fixed capital contracted 14.4% y/y in 2009, but in 2015, despite sanctions, it fell only 7.6% y/y. Positive export dynamics were another upbeat surprise. Exports grew 3.6% y/y in 2015, compared with a contraction of 4.7% in 2009. This suggests that ruble depreciation had a favorable effect on local industries.

Beyond the CBR’s switch to a free-float currency regime, it is worth mentioning the significant changes to fiscal policy. In 2009, the government strongly supported both companies and households, spending almost USD 100 bln from its savings to cover the budget deficit. As a result, household spending in Russia contracted only 5.1% y/y in real terms that year. In 2015, on the contrary, the cabinet set a course for savings, with public sector wages frozen for the year, leading to a 9.6% y/y contraction of real household spending. This tight budget policy, as well as the heavy currency devaluation, reduced the budget breakeven oil price from $100-110/bbl in 2009-2013 to $70/bbl in 2015.
Nevertheless, we should not be misled by the Russian government’s considerable progress toward fiscal balance or CBR achievements on the way to ruble free-float. The economy’s structural problems remain unsolved, leading directly to the weak recovery of FY15 and 1Q16. Although the economy was scraping the bottom as early as summer 2015, recovery took more time than initially expected — and even 1Q16 GDP numbers showed a contraction of 1.2% y/y. Even if the Russian economy delivers growth in 2016, its will likely be close to zero, and it is wishful thinking to speak about a resumption of the 4% growth of 2010-2012.

The first and key constraint to growth comes from insufficient fixed capital. Although investment in fixed capital in Russia grew from 16% in 2003 to 23% of GDP in 2012-2013 (Figure 3), this was not enough to avoid a deceleration of economic growth. First, it was overall too low, as the average level for emerging markets is 32% of GDP. Second, since 2013, investment started to decline. The first contraction in investment came in 3Q13; for FY13, investment increased only 0.9%, according to Rosstat. This was negative news, given the completion of many projects shortly before the Sochi Olympics (February 2014). 2016 investment is 9% below the level of 2012.

Since 2012, labor constraints have added to the aforementioned investment constraints. Due to a lower birthrate in the early 1990s, labor force growth has stagnated in recent years. This process is illustrated by a post-2002 7 mln reduction of the Russian population aged 20 or younger. Overall, since 1989, the under-20s demographic has contracted by 14 mln. Also, until now, an aging of population was not a serious problem; the number of Russian citizens older than 65 fell from 20.2 mln in 2007 to 18.1 mln in 2011. However, since then, this figure has grown 1.4 mln to its current 19.5 mln (excluding Crimea). The growth of the demographic load was accompanied by a cut in the labor force by 0.4 mln to 75.4 mln in 2011-2015 (excluding the 1.1 mln Crimea labor force).

The demographic picture was complicated by labor force allocation in the economy. Starting from 2009, and trying to follow a countercyclical economic policy, the government increased employment in the public sector. 17.6 mln were employed in the public sector in 2015 (24% of the workforce), which was high by global standards. In particular, in countries with the same low level of unemployment as in Russia, average public sector employment is about 10%.

An additional problem was the reallocation of employment to the informal sector. In 2014, employment in this sector grew almost by 1 mln from 14.1 mln to 15.0 mln. According to Rosstat, the share of grey wages increased from a historic minimum of 11% in 2012–2013 to 14% in 2014. More important is the migration of skilled personnel to the informal sector: the share of specialists with higher education grew from 13% in 2008 to 16% in 2013. The outflow of skilled personnel from the more effective small and medium-sized enterprises segment or state corporations to the less efficient informal sector led to a decrease in productivity across the entire economy.

Structural constraints for growth did not allow the economy to exploit import substitution. The share of imports in the consumption structure in 2015 decreased to only 38% from 43-44% in 2012-2013. This figure indicated that a large, 57% nominal ruble devaluation...
Figure 7. Consolidated budget primary balance, % GDP

- 5.6% in 2007
- 4.8% in 2008
- 1.7% in 2009
- 0.7% in 2010
- 0% in 2011
- 0% in 2012
- 0.7% in 2013
- 3.1% in 2014
- 3.1% in 2015

(or 46% in real terms) could not bring structural shift in the real sector. Despite substantial contraction in nominal imports, its share in the GDP structure remains at 21% GDP, the same as in 2011-2013.

Inflation Targeting — a Key Challenge for 2016-2017

Although more than a year has passed since the CBR officially announced that it would gradually switch to an inflation-targeting framework, there is little convincing on how successful the whole project has been. The timing itself suggests that the $74 bln decline of the CBR’s reserves from March to November of this year, rather than consistency with the new framework, might have been the salient motivation for the decision. Thus, the extent to which the broader government has accepted the need for, and cost of, inflation targeting is still unclear.

The CBR’s attempts to decelerate inflation are complicated by a number of factors. First, the global environment at the time of the Russian switch was not nearly as favorable as it was for most of other EMs. Moving to inflation targeting has been fashionable since the early 1990s; however, EMs mostly adopted inflation targeting in the late 1990s and 2000s. Setting aside local crises, this was a period of relatively high global economic growth — 4.2% average per annum in 1997-2007. Thus, when most EMs switched over, the cost of inflation targeting, usually paid in the form of a temporary slowdown in the local growth rate, was easier to pay.

This helpful environment has recently evaporated. World economic growth, according to IMF estimates, averaged 3% in 2009-2016, annual capital flows have dried up and global trade shows clear signs of slowing. The EM universe is facing the twin risk of capital outflow and currency depreciation. In Russia specifically, sanctions are an additional complication for the inflation-targeting framework. It therefore appears to us that the global environment will make the cost of inflation targeting in Russia higher than it had initially looked, and we do not expect this to change quickly.

Second, a key predicate for the successful implementation of inflation targeting is fiscal tightness. At first glance, Russia’s fiscal position should not be the issue it had been for its peers for the simple reason that sovereign debt is only 10% of GDP, and interest payments account for some RUB 0.3 tn, or 0.3% of GDP. However, standing at 3.1% of GDP, Russia was running one of the highest primary deficits in the EM universe. This suggests that the focus of budget policy is on supporting demand, and thus is creating inflationary risks, i.e. pressuring the CBR’s disinflationary stance.

Even if the primary budget was in surplus until 2013, other metrics suggest that the budget’s demand stimulus was still excessive. The non-oil budget deficit has averaged at 10% for the last five years, suggesting that the government was permanently redistributing oil wealth across the economy by funding excessive social (21% of GDP at the consolidated budget level) and military (4% of GDP) spending.
and this process continues. However, resolution in the banking sector remains an issue for two reasons. First, the revocation of licenses is a costly procedure in Russia. The CBR currently has a RUB 1 tn loan outstanding to the Deposit Insurance Agency, which earns approximately RUB 100 bln a year. Additional resolution of banks might lead to expansion of CBR lending to the agency.

Moreover, the credit-deposit channel in the banking sector does not function well. Despite the CBR starting to increase its policy rate from the very beginning of 2014, deposit growth continued declining, demonstrating poor sensitivity to rate increases. Analysis of 2015 paints the same picture. Despite the significant rate cut in 1H15, corporate loan growth remained steady at 4-5% (adjusted for currency), while retail lending continued to decline. In contrast, retail deposit market growth accelerated from 2014’s 12% y/y average to 18% in 2015, completely ignoring key rate movements.

From the abovementioned risks, the approach of the electoral cycle is undoubtedly the key challenge for the CBR in the near future. Accumulated social obligations can lead to significant increases of budget spending, particularly if there are improvements in the global backdrop. That is why it is worth preparing to keep tight fiscal policy, which, however, does not guarantee quick successes in the fight with inflation. Without a slowdown in inflation, it would be difficult for the Russian economy to end up with investment growth, which would be obligatory if Russia’s structural constraints to economic expansion are to be removed.
We tirelessly develop competitive advantages of the Bank, such as a profound knowledge of client needs, the readiness to search for individual solutions and the prompt implementation of customized services.

Also, in 2015 Alfa-Bank joined other authorized banks in the Program to Support Investment through Project Finance, approved by the Russian government in October 2014. The program provides preferential loans to companies in priority economic sectors. The engagement of Alfa-Bank in the government program is another proof of its significance for the Russian economy and trust of the government.

**Industry priorities**

Much attention was given in 2015 to relationships with companies in economic sectors prioritized by the Bank. Services to export-oriented companies were a focal point. Ruble expenditures and foreign currency revenue make such clients best protected amid the ruble devaluation, and their financial status is most stable. These are enterprises in the oil and gas sector, chemicals, petro-chemicals, metallurgy and timber, among others. We are attentive to the dynamics of market prices on their products and evaluate the risk factor of borrowers against the backdrop of falling prices.

Agreements with Lukoil PJSC and TAIF-NK PSC deserve a mention amongst the biggest credit deals of 2015. Last year Alfa-Bank became a leading banking partner of Lukoil PJSC by lending a sum nearing USD 750 mln. The loans were provided for general corporate purposes and met our client’s interest in long-term financing. We appreciate the mutually advantageous relationship and are set to expand this cooperation. Alfa-Bank’s USD 600 mln 5-year loan to TAIF-NK will enable the company to fund and to complete an expensive heavy residue processing complex project. The complex will utilize a unique oil refinery technique, which be able to refine crude oil to 95%, reducing the yield of heavy petroleum products (fuel oil, bitumen and gas oil) and raising the production of light petroleum products (gasoline, diesel) to the maximum level.

Another promising client segment is comprised of companies involved in «import-substitution». Sanctions have given a strong impetus to a number of industries, against the backdrop of the growing demand for Russian products on the domestic market and governmental support. Of primary focus are the agro-industrial complex and the food industry. Alfa-Bank sees cooperation...
with agro-industrial companies as a priority. In the beginning of 2015, Rusagro’s pig farm project in the Primorye territory was included in the governmental program supporting investment projects at Alfa-Bank’s initiative. Alfa-Bank is funding this project at up to 12.65 bln rubles at a discount rate.

We also plan to develop cooperation with manufacturers and suppliers of everyday goods and services, such as retail food stores, pharmaceuticals and telecommunications, among others. The demand is more stable in these segments, which means such businesses will also be stable. Still, even in priority areas Alfa-Bank carefully selects potential borrowers and assesses their robustness, the adequacy of their business model and competence of managers and shareholders.

An in-depth analysis of a client’s business is a foundation of successful operation of the Bank’s lending units. The present-day economic situation in the country does not allow decisions based on a superfluous view or a traditional analysis of financial reports. The Corporate Unit is focused on a detailed financial and «circum-financial» analysis of every company, its business structure and business approach, and the potential of the industry as a whole. We call this approach «know your client,» and it brings remarkable results.

Transaction revenue
The selling of risk-free products to clients is increasingly important to Russian banks. Alfa-Bank has been concentrating on enlarging the share of commission revenue for years. It ranked amongst the top three Russian banks by transaction revenue in 2015. Medium-sized corporate business was the driver of commission revenue in Corporate Banking in 2015. A growing number of companies have chosen Alfa-Bank as the principal bank for their daily financial operations.

Banks offer similar products in the transaction business, so Alfa-Bank emphasizes quality of relationships with clients. We tirelessly develop competitive advantages of the Bank, such as a profound knowledge of client needs, the readiness to search for individual solutions and the prompt implementation thereof. The customization of transaction business products has become an important part of our relationships with corporate clients.

Servicing foreign trade. Expansion of transaction services for foreign trade agents became a priority last year. In 2015, Alfa-Bank introduced a remote currency control solution, which appeared to be the best on Russia’s market in terms of quality, promptness and user convenience. We launched a full-value currency control service in the Alfa-Business Online Internet bank. The service significantly reduced currency control periods for clients got rid of paperwork. Now the Internet bank provides the entire range of foreign trade services: currency control, real-time exchange services, settlements with foreign partners and customs payments, including by use of customs cards.

The Bank’s foreign trade project not only invested in the development of an electronic channel but also modified internal processes, which delivered an advance service for foreign economic operations. An important advantage of the online service is the ability to analyze currency operations: the Internet bank contains a history of contracts and supports downloading of contract lists indicating their status and passport numbers, in addition to bank control statements and reports on the expected dates of foreign currency transfers from non-residents or of supply of goods. Alfa-Bank specialists used best available practices in the project, taking due account of client needs and anticipating their wishes.

Factoring. Alfa-Bank sizably increased the scope of factoring operations from the first to the second quarter of 2015 to be ranked amongst Russia’s top three factors. Alfa-Bank’s factoring turnover reached RUB 158.6 bln in 2015, which amounted to 9% of the entire market. Total factoring funding of Alfa-Bank clients stood at RUB 101.7 bln last year. Alfa-Bank factoring was used in 2015 by 412 suppliers, which assigned to the Bank 495,000 deliveries to 232 buyers (debtors). The number of «new» sales grew to RUB 5.5 bln, compared to RUB 3.3 bln in 2014 and RUB 4.3 bln in 2013. Alfa-Bank’s book of factoring orders reached RUB 27.8 bln in 2015, posting a growth by RUB 2.3 bln since 2014. The share of big companies doubled in that portfolio, as against previous years.

Trade financing. The funding of clients’ trade actively developed last year. Operations involved top-notch European, US and Chinese banks, which have maintained business relationships with Alfa-Bank for years. In 2015, Alfa-Bank became the first Russian bank to draw funding in US dollars from China — a directed loan from the Russian subsidiary of China’s biggest bank, Industrial & Commercial Bank of China (ICBC Ltd.) to fund imports from China by an Alfa-Bank client. Partnership with Chinese banks opens new vistas for our clients oriented towards the Chinese market.

Higher efficiency and interaction with units
The Bank has been working to improve its efficiency for years. The same applies to Corporate-Investment Banking. The unit’s structure underwent additional optimization in 2015 by means of automation of certain processes and reassignment of certain functions to other units. There have been other measures towards cutting unit expenses, including in regions, as well. The comprehensive approach delivered good results.

A productive relationship with other bank units, especially the Operations unit, is crucial for improving the efficiency of Corporate-Investment Banking. Close interaction with Operations in 2015 included the reassignment of certain functions to operations centers in Barnaul and Ulyanovsk, cultural initiative projects, optimization of inter-bank processes and many others.

Interaction with the E-Business unit is no less important to us, as this team designs products for remote client services and upgrades products for greater client satisfaction and anticipation of their needs. The Alfa-Business Online Internet bank offers the most comprehensive functions for corporate clients.
Medium-sized corporate business

Interaction with medium-sized corporate business (hereinafter referred to as MCB) clients was very active in 2015, which is proven by the yearly results. Last year saw a spike in every key indicator: the number of clients grew to 12,891 companies (vs. 7,294 in 2014) and operating profit went up significantly, mostly with risk-free earnings — net commission revenue. Success was achieved in the MCB segment by means of a strategy focused on risk-free income and high quality of corporate services.

How was that achieved? First of all, we changed our priorities, from the sale of loans to an integrated vision of every client and our relationships with them. The more we know our clients and the better our relationships are, the greater the chance we have that they will actively use Bank products and treat our Bank as their primary financial institution.

Secondly, we are offering high-tech bank services, which help client business. Transaction services are the core of the MCB segment. These include services for foreign economic activity and retail trade involving cash earnings, encashment and self-encashment. Products developed by the Transactions unit and E-Business unit enabled us to offer interesting solutions to clients and to attract new active users.

The situation on the market of bank services for the MCB segment was favorable for Alfa-Bank last year. The strong brand, the long-standing successful work as a provider of bank services for corporate clients and the history and reliability amid the market turmoil were important factors influencing client’s choice. That is why many medium companies preferred Alfa-Bank.

An essential element of the strategy of interaction with the MCB segment was closeness and cooperation with the Retail Banking unit. Persons interacting with the Bank on behalf of a client company also use bank products as individuals and are particularly picky about the level of bank service, online bank functionality and convenience of our services in that capacity. Corporate executives are potential and current clients of Retail Banking, and as a rule are part of the «prime» client segment. The level of service offered to a corporate clients forms an impression from the Bank and increases the probability that the corporate client’s employees will chose the Bank for their individual financial needs.

The task of our interaction with MCBs is to promote their choice of Alfa-Bank as the primary bank for their business, which will be used for daily transactions, tax and other budget payments, payroll purposes, etc. Hence, we will increase the development of our relationships with existing clients, identify their needs and offer solutions in 2016.

Technologies for medium corporate business clients

MCB clients are highly demanding about quality of service because even executives of such companies communicate with the bank. The possibility of conducting the maximum number of operations remotely is particularly important to this client segment. Expansion of Alfa-Business Online Internet bank functions is an area we worked on in 2015 and will continue to work on in the future: e-document flow, remote issue of cards and many other functions make interaction with the Bank convenient and therefore encourage a client to cooperate with us. We should not forget that remote services are broadening our nation-wide presence and give us an opportunity to work with cities where we do not have offices, as clients can conduct practically any operation in a remote manner, via the Internet bank or via the call center.

Last year, Alfa-Bank introduced cryptography and USB-keys for authorization and signing of e-documents in the Alfa-Business Online Internet bank. Previously, these tools were only available for users of the traditional system, AlfaClient Online. An e-document with a simple or non-qualified enhanced electronic signature is deemed to be equal to a paper document with a handwritten signature, while a qualified enhanced electronic signature on an e-document is analogous to a handwritten signature and a seal imprint on a paper document. We are developing various mechanisms for signing documents in the Alfa-Bank Online Internet bank and can offer several remote solutions to a client with due security levels.

The Alfa-Business Online Internet bank is appreciated by users and experts. Last June, Markswebb Rank & Report called Alfa-Business Online one of the most efficient solutions on the Russian market of remote banking services for business — the service ranked second in the final rating of Internet banks and became an absolute leader amongst online services for business novices.

In addition, Alfa-Bank updated its mobile bank for business in 2015. The new banking application for iOS and Android platforms meets the principal needs of company executives — the main users of mobile banking applications. The principal display demonstrates the current financial situation and gives access to main operations. The new mobile bank also allows for the management of accounts of several companies at a time.

Lending service

Two essential factors — current risks and client needs — were taken into consideration in the development of a strategy for the MCB segment. All credit products were divided into two categories: service lending products facilitating the everyday life of a company, and principal lending products (large loans for business development and similar goals).

With these factors in mind, in 2015 Alfa-Bank offered its current corporate clients with a steady money flow a new range of express lending products — overdrafts with a limit of up to 40 million rubles. The new express overdrafts feature involves a minimal package of documentation and a prompt decision made within three to five business days. The new products are designed especially for medium-sized and big companies with a yearly turnover from RUB 350 mln to RUB 3.5 bln, which accommodates such needs as covering daily cash shortages, timely payment of taxes and customs duties, among others. Express loans are granted only to current clients and, as a rule, at their request. While creating new products for legal entities, we think about what they need from their principal
Lending operations will be expanded in 2016. Yet the level of risk control will remain high. A pilot project to expand lending was launched in a number of regions in the end of last year, and it will be implemented across the country in 2016.

Work with employees

Alfa-Bank is energetically forming a professional team, and MCB is no exception. Continuous professional development of employees is our objective. This is the only way to create a team of specialists capable of solving complex problems and achieving goals by means of professionalism and motivation of every person, instead of just having a large staff. Those who like to win and to set and achieve goals, those who are ready for professional and personal development, and who enjoy their work and its outcomes, are the most successful. This is important not only from the angle of efficiency of every manager but also for service quality: the more an employee knows, the more he or she gets involved, and the more chances he or she has to help a client by identifying its needs and resolving its problems. People of this kind generate new ideas and contribute to the development of new popular products. We will continue to develop our segment together with them next year.
INVESTMENT BUSINESS

According to 2015 results, the investment business of Alfa-Bank earned the record-breaking operating profit, which exceeded the previous years’ results and 2015 targets. We managed to use the current market trends skilfully. It is worth noting that the markets’ behavior turned out better than expected at the beginning of the year. At a time when western banks reduce or discontinue their activities in Russia, reliable experienced financial institutions score additional advantages in their effort to attract clients, thus giving an additional impetus to their business.

2015’s excellent result is directly related to our strategy based on the idea of staff involvement. We were initially focused on building an environment where our people generate new ideas. With such business philosophy, both executives and employees (regardless of their level) strive for success and show their worth.

In 2015, the synergy with the Corporate division of the Corporate-Investment Banking unit became an important driver for success: we worked with division customers closely, and together executed large, significant transactions. The partnership with Auerbach Grayson Company, a North American broker company, to provide services to meet the demands of domestic institutional investors on the international market. Such cooperation considerably enhances the ability of the Bank to trade on the stock market. Due to this partnership and our own analytical business unit, the Bank has obtained another means of access to western investment funds. It opens up new opportunities to organize IPOs for Russian issuers. In 2015, we also made very good progress in digitalization of our services. In particular, we implemented the new version of the Alfa-Direct platform, which greatly differs from the previous version and enables us to surpass our competitors. The previous year was also successful for trading. We had rather small trading position — half of what we had in previous years — however, it was still sufficient to make good money in such a volatile market.

Corporate Finance

The arranging of business sale and acquisition transactions, company mergers and acquisitions, and raising direct investments from funds is a promising niche in the investment banking business. In 2015, Alfa-Bank was involved in closing transactions that changed the landscape in the pharmaceutical retail sector. Such transactions included the acquisition of Pharmacy Chain A5 by the shareholders of A.V.E. Group (Pharmacy Chain 36.6), and the acquisition of Ladushka Pharmacy Chain by ROSTA Group (Raduga — First Aid) in the Volga region.

In addition to classic M&A transactions, in 2015, at times when the banking system faced growing loan delinquency, the investment banking role as a consultant in searching for solutions and settlement of problem situations (for example, by selling non-performing assets to investors) became even more prominent. It is worth noting that an individual approach to each customer is essential in order to identify an option that will simultaneously meet the challenge and be appealing for other companies involved in such transaction.

Exchange Transactions Department

Growing synergy with Alfa-Bank’s A-Club clients has become a real breakthrough enabling us to expand our customer base in the second half of the year. The other essential aspect of the synergy with the retail business is tightening spreads of exchange rates for private banking customers of Alfa-Bank who exchange currency using the e-banking facility.

Alfa-Bank has historically played a prominent role on the global FX market. According to the Euromoney FX Survey 2015, Alfa-Bank has significantly climbed in the ranking of the world’s largest banks in terms of turnover in FX, up from 36th to 31st place. Alfa-Bank is the only Russian bank in the top 50 rankings. Additionally, Alfa-Bank has improved its ranking from 8th to 4th place in terms of its share (6.69%) of the FX market in Central and Eastern Europe, ahead of global banking giant Barclays. The Euromoney Survey evidences that Alfa-Bank’s share of the global FX market is growing. This means that the proper priorities have been chosen for development of this line of business — continuous technological advancement and further improvement of service quality.
Over 98% of transactions on the FX market managed by Alfa-Bank are executed in the e-trading mode. Along with classical channels, our customers execute currency exchange transactions using its unique trading information and settlement platform, Alfa-Forex, our in-house hi-tech solution. Doing this, they become an equal participant in the international foreign exchange market. In 2015, the FX market services were rendered via Alfa Capital Cyprus. Since January 1, 2016, Russia started to build a regulated FX market and Alfa-Bank was among the first to declare its plans to establish a Russian FX dealer company.

Last year, Alfa-Bank was declared the best provider of electronic FX liquidity in Russia on Bloomberg’s FX trading platform, FXGO. The Bank won this nomination for the second straight year — customers chose the best currency quotation, the majority of which were quotations by Alfa-Bank.

Structured Products and Derivatives

One of the most interesting structured transactions of 2015 was participation by Alfa-Bank in the syndicated pre-export financing of Siberian Coal Energy Company (SUEK). SUEK raised a pre-export facility of USD 1 bln from Russian and European Banks. The transaction structure involved an interest rate swap, a solution enabling the borrower to fix the interest rate if desired.

Dual currency deposits are of great interest to our customers. Such deposit account has a balance in multiple currencies, and the client company enjoys a higher interest rate and mitigates its exchange rate risk by exchanging currencies at the known exchange rate. In an environment where the exchange rate of the domestic currency fluctuates, a lot of customers doubt which deposit will be beneficial for them — ruble or foreign currency. This product has turned out to be in great demand.

Regarding derivatives, the Investment Banking team managed to offer several appealing solutions to customers who began using derivatives extensively for the first time to hedge their risks, for example, currency forwards, options, and futures. Recently, both large companies and medium-sized businesses are interested in controlling their exchange rate risks. The Bank earned revenue in 2015 from derivatives transactions, though it maintained a relatively small position.

Debt Capital Markets

In 2015, Alfa-Bank strengthened its positions on the debt capital markets. It managed this due to the team’s extensive experience and effective liaison with market participants and key accounts. The market was inactive but we participated in several offerings of Russian issuers, such as VimpelCom, Magnit, Rosvodokanal and X5. Additionally, last year we arranged the public offering of Eurobonds issued by Alfa-Bank.

In 2015 we took the top slot amongst Russian banks in the syndicated lending area. According to Bloomberg, showing the activity of investment banks on the syndicated lending market in Russia and the CIS countries in terms of volume and number of executed transactions, in 2015 Alfa-Bank was ranked the Top-1 bookrunner among Russian banks and Top-6 among world players on the syndicated loan market in the CIS countries. In this region, the market share of Alfa-bank is 5%, having grown threefold compared to 2014. During the year, the Bank climbed in Bloomberg’s ranking by six positions ahead of a number of competitors, such as JP Morgan, Citi, Raiffeisen, BNP Paribas, and Sberbank CIB.

Borrowers include Belarusian banks. Alfa-Bank arranged the syndicated loan of EUR 203 mln for ASB Belarusbank, OJSC, which is the largest in the history of the Belarusian banking system, involving a creditor pool including 16 banks from Russia and Kazakhstan. Alfa-Bank acted as mandated lead arranger, agent bank, facility agent and bookrunner.

In November 2015, an agreement on a syndicated loan totaling EUR 120 mln and USD 15 mln for the Development Bank of the Republic of Belarus was signed. The funds are to be made available in two tranches maturing in 6 and 12 months. The credit facility will be used to finance import and export trade contracts of the Development Bank’s clients related to supply of commodities and equipment to Russia and other countries. In this transaction, Alfa-Bank acted as mandated lead arranger, facility agent and payment agent. The high sovereign credit rating of the Development Bank and strong relationships between the partner banks participating in the syndicated loan allowed for the closing of a transaction in an amount that was record-breaking for the Development Bank.

Alfa-Bank also acted as an arranger, agent bank and bookrunner of a syndicated loan totaling USD 30 m and EUR 4 mln and maturing in 6 months (with 6 month extension option) for Alfa-Bank (Belarus). The loan is to be made available in two tranches of USD 15 mln and EUR 2 mln. The first tranche was transferred in July 2015. Despite last year’s considerable slackening of the debt market, Alfa-Bank managed to arrange financing on terms beneficial for the borrower. Moreover, the transaction became the largest in the borrower’s public history. The transaction was able to come to fruition thanks to the long-term experience of cooperation between the banks involved in syndication and the borrower’s high credit rating.

According to our forecast, the market will remain very volatile during 2016. In this environment, we will have to keep even a much closer eye on the market and credit risks. However, we expect that the market infrastructure will change and improve. Our top priority will continue to be staff involvement. We plan to work even closer with the Corporate unit and Alfa-Bank’s A-Club. Private clients and companies who use commercial banking services can rely on our extensive support in investment banking and the best services in that area. We will stay focused on further digitalization of services for private investors, interbank clients and businesses from various industries. Thanks to our new platform, Alfa-Direct, significant introduction of new technology will become feasible.
RETAIL BANKING

Summarizing the 2015 Retail Business performance, we can say with confidence that we were extremely successful in every core line of business. The net profit of the Retail Banking unit amounted to USD 119 mln and exceeded the targets, this being of prime importance in the current tense economic environment.

The Bank continues to rank second in Russia with confidence regarding its market share of demand accounts and still remains the only private bank on the Russian market among the Top-3 in this segment. In 2015, the market share grew by 0.86% to a total of 8.1%, and the volume of customer demand accounts in accordance with IFRS increased by 10% (excluding FX effect) totaling USD 4.8 bln. The volume of term deposits amounted to more than USD 5.7 bln at the end of the year. The stable growth of retail deposits demonstrates that customers trust the Bank and with confidence use its services both for keeping their money and growing their capital. Pursuant to the Retail Business development strategy, liaising with affluent customer segments encompassing high net worth individuals received special focus. Today, these are the customer segments that have financial reserves and therefore the special attention to them promoted growing balances of retail customer accounts.

One of the most significant trends of the current financial market is the reduction in the overall number of banks. This means that former customers of banks whose licenses have been withdrawn must select a new financial institution to keep their money and execute banking transactions. In this situation, reliability is crucial, and many of them choose Alfa-Bank, the first private bank in Russia. In 2015, the Bank was included into the number of systemically important banks, thus further increasing trust in us.

According to IFRS, Alfa-Bank’s retail loan portfolio constituted USD 2.7 bln, and the average market share of loans (without mortgages) was 2.9%. At the end of the year, Alfa-Bank’s market share in credit cards was estimated at 6.71%, with our credit card portfolio amounting to USD 2.1 bln. In the point of sale consumer lending segment, Alfa-Bank lent USD 475 mln in 2015, maintaining its position of third on the market. Finally, the total number of retail customers of Alfa-Bank also increased compared to 2014, and totaled more than 13.6 mln customers, including those of Baltiysky Bank.

In explaining how Retail Banking managed to deliver such results, it is worth noting several important aspects.

The first aspect relates to the Bank’s rather conservative credit policy, which has been justified in practice. The thought-over approach to lending to customers is crucial during a difficult financial period, as it allows them to mitigate risks related to borrow default. In 2015, the Bank continued its systematic handling of delinquency: our borrowers demonstrated quite good discipline of payments and repayment, thus exceeding our expectations. This means that the Bank minimized its retail risk losses by properly organizing the management thereof. Without doubt it is the result of the sustained successful effort focused on improving the quality of the Bank’s loan portfolio. Today we can state with confidence that we expect no grave problems related to loan default in 2016 unless there are any economic shocks.

For several years, the Retail Banking unit has been actively focused on improving its performance. In 2015, additional measures were taken to cut costs in the segments that were far from being profitable for the Bank. Cooperation with several retail consumer lending chains was discontinued, the rent expenditures were optimized, the organizational structure was changed and the overall efficiency of each employee increased by 20-30%.

Our call center deserves separate mention. In 2015, the retail customer support functions were completely relocated to regional locations. This was one of the significant phases of work aimed at improving performance of the Retail Banking unit. Both sites—in Ulyanovsk and Barnaul — are fully-functional, thus complementing each other in rendering support to customers in different time zones. We are now planning development of external sale of bank products through the call center. Additionally, a new customer contact channel has been put into operation. Currently, the Customer Support experts render support to our customers via online chat using Alfa-Mobile and Sense.
In cost saving, we also paid great attention to increasing risk-free revenues. Revenues re-structuring and re-allocation towards risk-free ones was crucial for the Bank in 2015. The legislative changes and economic reasons caused considerable reduction in the earning potential of the lending business; therefore, deriving revenues from other sources became a top priority. These days most of the Retail Banking revenues are fees and commissions from service packages, the proceeds earned from customer insurance and other similar revenues. Major efforts were also made to deal with customers using the Bank’s services via payroll programs. Customers were offered value added products, including insurance, which are risk-free for the Bank.

Without doubt, many years of work on improving service quality was one of the success factors in 2015. In an environment of decreased purchasing power, bank customers become more and more demanding in terms of the money they pay for services. High quality services have always been one of the major competitive advantages of Alfa-Bank, and nowadays they are of special significance for the top priority customer segments — affluent and premium. Implementation of the segment-oriented policy made a positive impact on the year’s results, and when developing new products in 2015, we were mainly focused on the existing demand, offering our customers the products and services they needed, such as added-value cards, online services and insurance products.

New products in Retail Banking

When describing new products, I would like to note, first of all, the launch of the cash-back cards project, this being the first project of this type for Alfa-Bank. The cash-back card became our response to the demands of the affulent customer segments in the existing economic environment. Despite the crisis, there are areas where consumer expenses are maintained at the same level. For example, people still have to use the services of fuelling stations. Receiving a cash refund to their bank card, they are able to save and use money for other purposes: to have a cup of coffee and have a cash refund to their account. Using the Alfa-Bank CashBack MasterCard® with MasterCard PayPass® contactless technology, our customers are refunded 10% of cash spent at fuelling stations and 5% of cash paid at cafes and restaurants to their cards. Such refunds encompass purchases made both in Russia and worldwide. Our customers have already duly appreciated this advantageous offer, which helps them to save considerably in the current tense economic environment. In 2015, this project was implemented for debit cards — it enables customers who are reluctant to use borrowed funds to keep on saving with the aid of the Bank without changing their lifestyle.

Retail Banking customers have actively used the Alfa-Miles program for several years. Starting in 2015, program participants were provided with the option to exchange accumulated miles for trips by the high speed Sapsan train and other trains of JSC Russian Railways. Since last December, all passengers of Russian Railways can apply for co-branded «RZD — MasterCard — Alfa-Bank» cards with MasterCard PayPass. It is worth noting that this is the first time that JSC Federal Passenger Company (a subsidiary JSC Russian Railways), MasterCard International Payment System and Alfa-Bank have launched a joint bank product. Launch of the co-branded «RZD — MasterCard — Alfa-Bank» cards and cooperation with one of the major Russian companies is of great importance, since the new product meets the interests and desires of our customers in full. Transport co-branded cards are traditionally very popular, accounting for about 40% in the overall portfolio of issued co-branded cards. Taking into consideration the fact that in Russia it is the railway that is used both for tourism and business trips within the country very widely, we have created the new bank card, reaping benefits of the popularity immediately. Within two months after the program launch, over 30,000 cards were issued, 30% of which were issued to new customers. The card is a fully functional bank card and provides for earning points under the RZD Bonus loyalty program. An additional advantage of the card is the fact that points are accrued both for trips on trains and for routine purchases, thus allowing one to earn a bonus ticket more quickly.

We value our customers’ time. Therefore, in 2015, we further developed our instant issue card project in the Bank’s branches. At present, a debit card can be issued within 10 minutes in thirty two branches in Moscow and other large cities throughout the country. Alfa-Bank has become one of the first financial institutions in Russia offering this service to its customers.

Use of modern technology to ensure maximum convenient interaction between customers and the Bank has been a trademark of the Bank for a long time. Quite often, our Bank is the first to introduce innovative technology solutions. This past year was no exception. Alfa-Bank was the first in the country to implement the project by which the ATM contactless technology MasterCard PayPass became available to the public. With this technology, a cardholder is able to make cash withdrawal and cash deposit transactions, check his or her balance and make transfers in one click using ATMs. Moreover, the Bank provided access to its ATM services to holders of third-party contactless cards and devices. This is the first time this service was implemented both in Russia and Europe.

Every year our customers are more active in their use of bank cards. This past year was a peak year for the Bank in terms of the number of plastic card transactions. For the first time ever, we exceeded the benchmark of billion transactions per year. This confirms the fact that more and more customers choose our cards as a payment instrument. The Bank for its part has justified our customers’ confidence in our provision of quick and secure transactions.

In 2016, another interesting co-branded product is planned to be launched — a unique «World of Tanks — Master Card — Alfa-Bank» debit card. The card will be issued together with the company Wargaming. The Bank’s customers holding such cards will be able to receive «gold» for the legendary game World of Tanks by simply making routine purchases. There are about 30 million registered participants in this online game in Russia. The launch of the new card will be a big day for a large number of people in our country.
Branches and ATMs

In 2015, the Bank opened 18 new retail branches both in Moscow and other cities throughout the country, including St. Petersburg, Voronezh, Krasnodar, Kursk, Perm, Khabarovsk, and Arkhangelsk. In total, individuals have access to 344 branches, including 76 fully functional branches in Moscow, 217 in the regions, 37 mini branches and 14 A-Club branches.

To ensure wider access to its services, the Bank is active both in developing remote service channels and in expanding its ATM network. Today customers are serviced by more than 4,100 customer-operated machines, including 695 of Baltiysky Bank. More than a half of the machines have a cash deposit function. The joint ATM network with other Russian banks provides additional benefits to our customers and encompasses about 20,000 devices in over 2,500 communities in Russia.

A-Club

In 2015, the number of A-Club customers grew by over 10%, thus evidencing high demand for this type of service on the part of affluent individuals. In the current volatile economic environment, A-Club services are still in great demand both in Moscow and the regions as customers appreciate the Bank’s reliability and exclusive level of its services. The high level expertise possessed by the Bank and its partners in the investment area and ability to provide highly professional consultations on a wide range of issues related to private interests of both customers and their families and their businesses are of considerable significance for the affluent customer segment. In 2015, another A-Club branch was opened in Nizhny Novgorod. In 2016, A-Club will be opened in Rostov-on-Don. We will pay great attention to work in this customer segment while developing the functions of remote bank services and sharpening our expertise in the area of private wealth management.

Speaking of remote service channels for affluent customers, it is worth noting that in 2015 A-Club members were provided with more options for convenient execution of transactions without visiting branches, via the Alfa-Mobile Premium project. This is a mobile bank function enabling customers to make remote transfers of large amounts using their mobile phones. To make a transfer, a customer has only to contact his or her manager by phone, receive notice via Alfa-Mobile, and confirm his or her order. The new service enables affluent customers to make intra-bank ruble transfers and also ruble payments and transfers to other banks. The maximum transfer amount is RUB 5 mln. This means that large amounts can be transferred without the need to take time to visit a branch. This service is in great demand by A-Club customers, and is a definitive competitive advantage, as no rival bank offers similar services.

Finally, I would like to mention that in 2015, according to Frank Research Group, Alfa-Bank was ranked the best bank for affluent customers, based on a «secret buyer» methodology. This was hardly our only award related to A-Club: Forbes rated us first in the category «Top Private Banks and Wealth Managers» for affluent customers. We are proud that affluent people, who are known both for their good financial awareness and demanding attitude to services, entrust management of their wealth to us. According to ratings, Alfa-Bank meets the expectations of this exacting segment in full.

Remote Service Channels

Alfa-Bank has been a leader in digital banking for many years, forming trends and determining the dynamics of market segment development. In 2015, the total number of customers using Alfa-Click exceeded the important benchmark of 4.5 mln people, with the number of payee companies exceeding 14,000. The number of Alfa-Mobile users exceeds one million customers. About 15% of all customers of Alfa-Bank use this remote channel.

Further development of remote service channels remains one of Alfa-Bank’s top priorities. In 2015, Alfa-Click and Alfa-Mobile updated their functionality, expanding the ability of our customers to perform their financial and nonfinancial routine transactions remotely.

Speaking about remote financial services, I would like to mention that since 2015, the Bank’s customers using Alfa-Click have been provided with a fast and convenient function to make transfers from their bank cards to the cards of any Russian bank. Cards to which a transfer is made are automatically stored in the card list, meaning that it will be easier to make repeat transfers to such cards. Nonfinancial services include the option to obtain travel visas without leaving home, thanks to our cooperation with the VisaToHome service. Currently, the Bank customers who use Alfa-Click can apply online for visas to over thirty countries without taking time to visit visa centers. Another service made available since 2015 to Alfa-Click and Alfa-Mobile users is the ability to search for and book of hotels worldwide by using the Oktogo service.

The functionality of Alfa-Mobile (mobile banking) has been greatly expanded as more and more of our customers use mobile phones to perform most of their tasks. The Bank understands that today it must ensure maximum availability of its services regardless of a customer’s location. In 2015, the software was updated multiple times and its functionality was expanded. For example, we added the ability to open current and saving accounts in rubles and foreign currency and to log into the mobile banking application using a fingerprint — this being a more convenient and secure method of customer authorization in the System. Additionally, mobile banking provides details on locations of Alfa-Bank ATMs, thus assisting in searching for ATM, for example, in a large shopping center or at an airport. If such location details are available, any customer can send his or her comment about such device location to the Bank, and after it is checked, it will be available in the application. The mobile banking application design has also been updated to both reflect the spirit of the age and to meet desires of users.

Chat with the Bank’s employees through Alfa-Mobile has become an important and popular function of the new application. Customers are able to receive online consultations 24/7 on any
questions they have. The mobile application chat enables us to be even closer to our customers by arranging a dialogue in the format of mobile messenger they are familiar with.

The «Lightening» service was added to mobile banking, thus enabling customers to pay e-invoices issued by partner sites or applications using USSD messages. This is the first time that such service is implemented in the world using the synergy of two technological platforms. One is the e-invoicing service enabling Bank customers to draw online invoices for orders in over 50,000 eCommerce websites. The other is the USSD data channel, which provides the ability for interactive confirmation of payments and selection of a debit account. The service is already enabled for a lot of companies, and their list will be expanded.

Finally, Alfa-Bank was the first among Russian banks to implement support for a new Apple product — Apple Watch.

The mobile application «Sense» is worth mentioning separately as a new method of communication with and servicing of every Alfa-Bank customer. This is a type of mobile financial advisor who analyses the user’s behavior based on his or her transaction details, search queries, e-mails, calendar and other information, and displays prompts. The application is not similar to any classic banking software.

In 2016, we are sure to continue development of remote service channels for customers, and promote development of online sales of our products and services.

Customer Feedback

Customers’ opinions about the Bank’s operations, products, and services has always been important; therefore, we have been actively using all main feedback channels for many years. In 2015, the Retail Banking unit created one more channel — Customer Voice. Now after any contact with the Bank, including remote channels (call-center), the customer receives an SMS message requesting to assess the work of the employee he or she communicated with. Customer Voice enables us to enhance the quality of service further, which we believe will be implemented in the future. In the near future the customers’ assessment will become a significant component of the financial incentive system for Bank employees.

We also continue actively obtaining feedback on our work through all other channels, including social networks. We provide our customers with the ability to inform us of their impression about dealing with the Bank in the manner convenient for them and are sure to respond to the feedback we receive. We receive information 24/7 and every day we make effort to become better, more understandable and convenient. We listen to our customers’ opinions and take into account their wishes when developing new products, services and, of course, in expanding the functionality of our remote service channels.

We both receive a feedback from our customers and share our expertise. Last year Retail Banking employees held a series of free training workshops on five subjects: «Efficient Management of Personal and Family Budget,» «Art of Saving Money: From Dream to Reality,» «Loans: Sensible Path to Financial Freedom,» «Protection of Health, Wealth, Property,» and «Personal Finances and Investments.» The workshops were designed to help our customers to resolve their current financial issues, to teach them how to manage their money competently, plan their budget and achieve their saving objectives, utilize loans and avoid a high debt load. We believe that by acting as an advisor in the world of finances, which is complicated for ordinary people, and offering the assistance of our experts, we are building long-term partnership with them. In 2016, we are planning to launch online versions of the above workshops on the Bank’s website.

Goals and priorities for 2016

Making forecasts for the next year, we can state with confidence that it will be profitable for the Retail Banking segment. The Bank has fully adapted to the current economic reality and works successfully in the current environment. As for our priorities for next year, they are the same — maintaining the high quality of services rendered, further expanding remote service channels and optimizing the existing products for day-to-day life, including development of service packages and products generating revenues, providing added value for our customers or enabling them to save money, such as through cash-back cards or loyalty programs. In 2016, the Bank will resume its operations in the lending segment and introduce a new product tailored to young customers.

In conclusion, I would like to thank our customers for the confidence in the Bank they show every year entrusting management with their financial affairs. Over half of retail customers of Alfa-Bank choose it as their main bank every day. This means that the work we do every day enhancing our products and services and making them more accessible and convenient does not go unnoticed. We are ready to meet and anticipate our customers' expectations while remaining their long standing and reliable financial partner.
The year 2015 was referred to as an economically complex period, but it was highly successful for the Mass Business unit, regardless of any problems encountered by Russian companies. The high results achieved by the Bank in collaboration with small businesses in 2015 derived from a systematic approach to interaction with entrepreneurs. This approach is based on clear rules of the segment, an understanding of the way the work should be organized, and a wish and ability to do the work well. We formed a strong team of like-minded people with perfect knowledge of the market and ability to hear and listen to their clients and to justify and anticipate the expectations of companies. Over the years we have created Alfa-Bank’s image as a bank actively interacting with Russian small businesses. Judging by our yearly marketing survey, the Bank steadily ranks second by recognition in that segment, sharing this place with VTB.

Record growth

At the end of 2015, key indicator growth rates topped 50% and clientele neared 220 000 companies and individual entrepreneurs. The monthly growth of clientele hit our record — 10 000–14 000 clients during, in the second half of the year. Our share on the mass market grew from 3% to 4.4% on the average across the country by the end of 2015. According to management accounting, the overall balance of demand deposit accounts increased by 17.2% to USD 876 mln in the end of 2015. Commission income grew by 31.7% in dollar terms and more than doubled in ruble terms. Overachievement of the operating profit plan was a weighty indicator of success. This is a noteworthy accomplishment, considering the ambitious plans for 2015. Management accounting posted 2015 net profit at USD 105 mln, which was higher than plans and 2014 indicators.

Analyzing the sources of our success, we can say that perks gained by small businesses from cooperation with Alfa-Bank are one of the major factors. These advantages are clear to the market and, most importantly, to our current and potential clients. Any bank provides settlement and cash services but, all else being equal, clients chose a reliable financial institution that is also customer oriented and focused on their goals, tasks, needs and problems. They prefer a bank which not only declares that it values one’s clients but also does specific useful things. Alfa-Bank has always been the market leader in this field. The Mass Business concept is that we help our clients develop their business; clients realize this and share this information with their acquaintances and colleagues on the market. Client Club is an initiative that well illustrates our policy of interaction with small businesses.

In the current economic environment, clients want a reliable bank that supports them as a partner in a time of difficulties. The reliability of Alfa-Bank was another factor determining the choice of potential clients in 2015. The inflow of applications increased the time we spent on client verification: not only do companies choose their bank, but the Bank carefully chooses the companies it is ready to accept. Regardless, on the whole the trend helped expand clientele.

Not only prospective clients but also our business rivals showed interest in Mass Business operations in 2015, which again proved the correctness of our strategy. For the past five years, the unit has been actively developing transactions that, rather than lending, are the main area of interaction with small businesses. Amid the shrinking volume of lending operations and soaring bad debts and other potential risks encountered by all actors on the financial services market, banks are thinking about ways to increase their risk-free profit. Alfa-Bank has been successfully doing this for a long time, which sets an example for other majors. An interest in the Bank’s strategy also signals tightening competition, which means our competitive advantages need to be expanded, our leadership in primary business areas needs to be maintained, and more needs to be done for improving service quality and developing the product range in accordance with client expectations.

Club of business clients

Client Club unites entrepreneurs and small businesses that are Alfa-Bank clients. The Bank has created a unique eco-system — a community where entrepreneurs find their partners, suppliers and potential clients. The Club kicked off three years ago as a privilege program with an emphasis on benefits and discounts offered by Club partners to Bank clients. That was especially
popular in recent years when businesses found themselves in difficult economic conditions. Club Partners offer discounts of up to 30% or more for business goods and services: legal and accounting services, procurement of furniture, repairs of computers and office stationary, cargo transportation, cleaning services, etc. Offers from partners are posted on the Bank website, so it takes little time and effort to find the best price and a reliable supplier.

The segment was energetically developed throughout 2015, and useful tools needed by our clients were generated. A number of big companies, the services of which are sought by small businesses, joined Client Club last year. Alfa-Bank started up a joint project with HeadHunter, which is tasked to help small businesses find skilled specialists. Beeline and YandexDirect are some of the Club’s big nationwide partners. Last year, within the Partner Club framework, we started to cooperate with the Nethouse website constructor, helping companies and entrepreneurs quickly create full-value modern websites for their business, promote them in search engines and attract clientele online. Another new partner of the Club, the Bitrix24 service, offered Bank clients six months of free use of its services. This is a set of tools for organizing and automating company activity, such as task management, CRM for sales and client service management, a virtual automatic telephone station, and many others. Bitrix24 is a useful instrument for executives and employees at any stage of business development, as it accelerates and improves the efficiency of the business processes. Another useful partner of the Club is Webinar.ru; today webinars are used not only for videolinks, meetings with clients and partners and conferences of any scale but also as a real instrument to win new clientele.

In 2016, the Club for small business will be transformed into a business community with even broader capacities. The development of the Club’s online platform, club.alfabank.ru, will be playing an important role.

Partner portal

The rapid growth of the Client Club privilege program led us into an idea of an online platform offering a convenient online catalogue of partner discounts, services required by small businesses and useful business knowledge.

The main ingredients of a successful business — non-financial resources of Alfa-Bank and offers from Client Club partners — can be found on one online resource launched in March 2015. The new portal gives access to bona fide suppliers of goods and services in every city and offers exclusive discounts. In most cases, a partner supplier is also an Alfa-Bank client, so inter-company settlements are conducted rapidly and commission-free.

The Club Client portal enables entrepreneurs to use special offers from B2B majors online. These include the aforesaid Nethouse website constructor, counterparty checks provided by Kontur.Fokus, Knopka business back-office, communication service gift certificates from Beeline, personnel recruitment services from HeadHunter, AmoCRM system, MioSkid service, Yandex.Direct, Muye Delo online accounting, and a service preparing documents for registration of limited liability companies and individual entrepreneurs.

We create a comfortable environment for professional development and business growth of our clients, so the portal will constantly expand its functions and grow with new non-financial services and interesting and useful content.

Sharing best practices

Bank clients from the small business segment often need consultations. Therefore, Alfa-Bank regularly holds business conferences and seminars for entrepreneurs and small businesses under the Client Club aegis. We open accounts for many companies after Client Club conferences, and work on the format and content of our conferences in order to achieve their maximal efficiency. This is the platform where experts speak about specific instruments to be used for increasing revenue, clientele and sales, for improving recognition of brands and for accessing new markets. The marketer and author of books on economics and marketing Igor Mann tells businessmen what tools can help their companies rapidly increase turnover, while ISEE marketing agency head and Yandex coaching partner Mikhail Ivanov speaks about business promotion and attraction of online clientele, and Finolog company founder Mikhail Smolyanov highlights financial awareness and accounting. At «Compare Yourself» interactive sessions, several businessmen from the city hosting a Club conference speak to the audience about their business, and experts evaluate companies online and tell the session participants and others what should be emphasized and changed for making the business more successful. Such events are real hits. The sessions held in Yekaterinburg, Volgograd and Voronezh were attended by 400-500 executives and owners of small businesses — our current and potential clients. Conferences are actively discussed in the community, which gives us an opportunity to present ourselves as a bank interacting with small business clients.

Ten major conferences were held across the country in 2015, in addition to dozens of seminars and meetings in other formats. We will conduct 16 business conferences in 2016. The Client Club conference held in Moscow in March 2015 was a notable event. Igor Mann was a guest speaker, telling the audience how to attract new clients, to motivate current clients to buy more, to reduce client outflow and to increase revenue under difficult economic conditions. The special guest was Natalia Orlova, one of the most quoted and authoritative analysts in the country, head of the Alfa-Bank Macroeconomic Analysis Center and professor at the Higher School of Economics. The Moscow conference had a very busy program: prior to the guest speakers, the audience was addressed by Bank partners, whose services foster business of our clients, among them representatives of Beeline, HeadHunter and Knopka. The head of the Moscow Small Business state enterprise told conference participants about the business support program of the Moscow government and plans for its expansion. Free legal assistance provided under that program became accessible in 2015 via the Alfa-Bank Client Club portal launched on the conference day.

Another initiative of ours, which received a lot of feedback, is the «Compare Yourself» booklet, which contains best offers and best solutions from our partners. Any client can use Club opportunities for things like opening an online store, using a warehouse, accounting products, etc.
Client comfort services

In 2015, entrepreneurs and businesses in almost 40 Russian cities were able to save time by acquiring certificates and account statements without visiting a Bank branch. Alfa-Bank was one of the first major Russian banks to offer this service to clients. The Bank delivers the documents by courier service within 24 hours of the documents being prepared. It is possible to request the Alfa-Courier service via phone, via the Alfa-Business Online Internet bank and from a Bank branch. The Alfa-Courier launch is another step Alfa-Bank has taken toward building an efficient and comfortable environment for small and medium business.

Over the past year, energetically developed technological solutions for our clients. A lot was done to improve the Alfa-Business Online Internet bank. In the beginning of the year we set the task of making it simple, clear, logical and accessible to all our clients. Numerous changes were made during the year, primarily to the most popular elements, such as the preparation of payment orders and statements. A new solution was created for the convenient preparation of payment orders on a regular basis, and it is one of the best available on the market.

In addition, last year Alfa-Bank corporate clients were allowed to activate and deactivate additional services remotely, by means of the Alfa-Business Online Internet bank and the business call center. The Bank reduced the package of documents signed by clients and expanded remote service opportunities. We value the time of our clients and help them save it. Another step made in that direction is that the number of mandatory visits to a Bank branch has been reduced.

Full integration of the Internet bank with the Kontur.Bukhgalteria cloud service was accomplished in July 2015, which means every chief online accounting service — Moye Delo, Kontur.Elba, B2B Center and others — are integrated with Alfa-Business Online. Special cloud services help clients maintain correct accounting, submit reports, pay taxes, and prepare bills, acts, invoices and contracts. Thanks to integration with the Internet bank, a bank statement is automatically imported to the accounting program. Additionally, the Alfa-Business Online Internet bank was integrated with the MoiSklad business cloud service last year. Owners of online and retail stores or small wholesale companies are now able to transfer outgoing payments to the Alfa-Business Online Internet bank and to rapidly download bank statements in MoiSklad.

The development of integrated cloud solutions is a leading trend in remote banking. Alfa-Bank clients are readily using them, and we intend to develop our partnership with cloud services and to provide our clients with a broad range of quality remote banking services.

The mobile business bank was also updated last year. The new banking application for iOS and Android platforms meets the principal needs of company executives — the main users of mobile banking applications. The new edition displays all necessary information and control buttons on one screen, information is arranged by its significance, and new tasks are always highlighted. The mobile business bank keeps entrepreneurs in the loop and enables their rapid response to new circumstances: mobility is what present-day entrepreneurs need from bank services.

In the second half of 2015, we organized an extensive advertisement campaign to promote our mobile service for legal entities; we improved its recognition and the number of clients connected to our paid option for forming payment orders. Our viral video quickly scored over one million hits, a record amongst corporate videos.

The Bank’s achievements in the field of remote service have been acclaimed by clients and experts. Last year, the Alfa-Business Online Internet bank was recognized as the most efficient solution on the Russian market of remote banking services for business novices by the Business Internet Banking 2015 survey. The Markswebb Rank & Report agency made the survey to analyze the efficiency of online services provided by Russian banks to small businesses. Over the past year, Alfa-Bank made another step forward in the development of online services for business.

Lending to small business

Last year was not easy for all market actors in terms of lending. Alfa-Bank decided in December 2014 to suspend lending in this segment. At the same time, we still provide overdraft, an urgent payment resource available in case of insufficient funds in an account. The Bank sees a client’s turnover, which makes it possible to assess the business’ robustness and performance under the current financial circumstances and to make an overdraft decision.

In July 2015, the unit resumed lending under the Partner standard program. The main criteria for assessing the turnaround ability of a small business — turnover, which makes it possible to assess the business’ robustness and performance under the current financial circumstances and to make an overdraft decision.

Activity in regions

The Bank’s strategy of broadening its presence in regions is rather simple — due to the manifold growth of clientele we should think about facilities to serve new clients and ways of making their cooperation with the Bank maximally comfortable, giving them a feeling that the Bank is nearby. For instance, our clients need the ability to regularly deposit money, their earnings, in the Bank, as most of these clients are retailers and service companies. Self-encashment is always possible by use of the Alfa-Cash Ultra card in ATMs, but many clients prefer to deposit large sums of cash in their accounts in Bank branches, via Bank employees, which makes the opening of new Bank branches necessary in some cases. This was accomplished in Pskov and Petrozavodsk in 2015; we stepped up mass business in the Northwestern region. About 25 new platforms were created, in particular, with retail bank premises.

Work with the team

Last year, the Mass Business unit reached a very high level of HR stability — the plan was overachieved at 112%. We are certain that the market situation is not the only reason: first and
foremost, purposeful work was done in all cities for enhancing the degree of Mass Business employees' involvement, in particular, by means of various events and coaching seminars. For example, a program for Moscow office employees, «No Masses without You,» thanked those doing a great job at their work places every day. The best employees were awarded; they were sincerely glad that their achievements were noticed and rewarded.

Interaction in Bank

A global process exchanging relevant information between the Retail Business and Mass Business units started in 2015: each of them had a substantial number of clients interested in each other's services. It is our goal that all clients cooperating with the Mass Business unit of the Bank become Retail Business clients and vice versa. In order to spur on those processes, we launched a system of employee motivation. In the end of the year, Retail Business met the task of attracting Mass Business clients by 186%, while our unit fulfilled the payroll client plan by 111%.

I would like to thank our colleagues from the Operations Unit, who had to bear the additional burden in the period of most active growth of clientele and successfully accomplished that task. Even in the peak period, unit employees in Moscow, Ulyanovsk and Barnaul coped with the inflow of new Mass Business clients and stayed in the office until they did everything to open accounts.

Allow me to emphasize that the success achieved in 2015 came not only from Mass Business but also from the entire Bank. The interaction between units will be even more active in 2016, which means we can expect new achievements.

2016 forecasts and goals

The regulator's requirements for banking market actors will expand in 2016. Alfa-Bank is prepared. We are improving the quality of involved partner companies in the small business segment and creating additional barriers for inferior clients at early stages. This is necessary for lowering risks of operations with small businesses.

We also plan to do additional work to expand regional presence in the small business segment and to implement a number of high-tech projects. The Bank's market share is supposed to near 6% in 2016. New projects will enable us to advertise our operations serving small business across the country even more loudly.

Another specific feature of next year is the continuous tightening of competition for quality clients, which means that quality and speed of our services, which Alfa-Bank has been known for for many years, will be even more important in this rivalry. The work will continue in this area, as well as in the development of remote banking services. To be better, more convenient and faster and to offer additional advantages to clients — this strategy made us successful in 2015, and it will remain relevant in the future.
Operations Department

In 2015, the Operations unit was furthering processes and procedures towards higher quality of client service, efficiency and minimization of operational risks. The year was not easy for banks and their operations units, primarily, the arrears recovery service. The Operational unit took comprehensive measures to deal with the negative trend at the beginning of the year and improved the recovery of arrears to 94% — an extremely high level, given the current economic circumstances.

Optimization of the unit’s activity was a key point of 2015. It underwent important structural transformations: non-core functions were reassigned to other units and the unit incorporated the collection service. Certain services for legal entities, which did not require direct contact with clients, were moved from the front offices to Alfa-Bank operations centers in Ulyanovsk and Barnaul.

The package of measures implemented in 2015 reduced the cost of operation of many Bank units, improved organizational parameters and definitely raised the quality and speed of client service.

Improvement of client service

An improvement of client service has always been a priority for Alfa-Bank, and a lot was done in that field last year. For instance, the quality management system was launched not only in the Operations unit but also throughout the Bank. Critical to Quality (CTQ) parameters, essential for the level of client service, were determined and monitored, and measures toward their improvement were developed and enforced. As a result, the Bank is ready to maintain quality by major parameters even in case of a failure in its systems or an unexpected increase in incoming operations.

A number of operational areas made significant progress in 2015. For example, the opening of accounts for payroll clients and the processing of payroll accounting registers were significantly accelerated. Funds on payroll accounting registers were transferred on the same day in 100% of cases, compared with 80% in 2014.

A lot was done to raise client accessibility to self-service instruments to 96%. Our clients have stopped complaining about insufficient accessibility of our ATMs, and even clients of other banks are now using Alfa-Bank ATMs more often.

The reduction of paperwork has also been very successful. The shift to electronic processing of payroll accounting registers increased the percentage of electronic registers up to 85%.

The speed of opening accounts for legal entities was accelerated. The revocation of bank licenses continued in 2015, which increased the inflow of mass business clients to Alfa-Bank. It is crucial to any company that its bank account be permanently accessible, and we have met our clients’ needs by reducing the account opening period. About 30% of accounts were opened within 24 hours and 67% within three days in 2014; the ratio of accounts of legal entities and individual entrepreneurs opened within 24 hours reached 84% and the ratio of accounts opened within three days stood at 93% by the end of 2015. Hence, practically every client gets a working bank account within three days even if the Operations unit team has to put in extra work.

Another achievement is the significant acceleration of payments. Payments made by Alfa-Bank clients were twice as rapid in 2015 as before. In the past, payments of legal entities were transferred within a day, and payments of individuals were transferred within 48 hours. Now, about 89% of all payments are transferred within one hour, that is, practically online.

A pilot project for the remote opening of accounts for legal entities, «Remote City», was launched in 2015 to attract and service clients in cities where the Bank has no branches. As a result, a larger number of cities have the opportunity to cooperate with the Bank, and Bank operations become more efficient — the Bank gets new clients without bearing the expenses of opening and maintaining branches.
Alfa-Bank has financial expertise that may be useful for its clients: their business develops and the number of requests filed with the Bank reduces, which raises the efficiency of Bank team. Therefore, a series of coaching seminars was organized for clients in 2015 on key business-related themes, including cash operations, foreign currency operations and foreign currency control. Retailers, which are extensively dealing with cash, were particularly interested in training programs. Special seminars, including on-site ones, were organized for accountants of our payroll clients. Alfa-Bank specialists demonstrated how to use its systems to avoid mistakes and answered participants’ questions. In the end, 80% of clients joined our payroll accounting system instead of using paper documents or visiting a Bank branch, which saves the time of the client and Bank employees. Seminars for Corporate Banking and Mass Business clients were held in St. Petersburg, Nizhny Novgorod, Yekaterinburg and Chelyabinsk in 2015. The training programs received very good feedback, and similar seminars may be arranged for Retail Banking clients in 2016.

Use of modern technologies

Alfa-Bank prioritizes technological dimensions of the banking business, which is of crucial importance for the Operations unit dealing with high quantities of data and documents. Technological improvements made in 2015 addressed organization of internal data and processing of client data and requests.

The launch of Knowledge Base, containing operational procedure standards for all necessary documents and a convenient search engine, was a landmark event fostering the efficiency of Bank employees. The system features a decision tree, a tool that brings the user to a logical conclusion about the best way to handle a particular situation. The systematization of knowledge made the expertise accumulated by our team accessible to all Bank employees.

The launch of an internal electronic document flow system minimized paperwork. All incoming documents used to be processed manually. Now, a single system incorporates all data and sends processing timeframe reminders. On one hand, this reduces risks of late replies to requests from supervisory authorities and, on the other hand, it demonstrates the workload of every employee. The system considerably simplified and accelerated coordination of documents by making joint work possible. It submits a document to every engaged person, sends coordination reminders, and shows the document’s current status. The system has accelerated coordination of administrative and organizational documents by 15% and cut the administrative office’s time input 25%.

Another important technological innovation of 2015 was the use of the Alfa-Office technology for submitting document scans for the opening of accounts and the exchange of information with Bank partners and potential clients. A client can scan documents using a special application downloaded to an ordinary smart-phone, and the documents are immediately verified by bank office employees. It is no longer necessary to visit a Bank branch or to wait for a manager, and the time span between the filing of a request and the opening of an account is reduced. Moreover, in 2015, the PEGA system automated the opening of accounts for legal entities and individual entrepreneurs, with the generation of a package of documents for signing, and introduced technology for using the electronic signature of a Bank employee, with the automatic posting of documents in the electronic archives.

Increasing efficiency

In 2015, the Operations unit developed an efficiency management system covering several areas.

The first area is a fostered culture of progressive on-site improvement. Previously, the center of expertise was seated at the Bank’s main office, which was the source of improvement initiatives. This changed last year. Regional employees, especially in major cities — Ulyanovsk and Barnaul — are aware of improvements which can be made in their work. Their expertise was expanded by special coaching events, which taught employees how to optimize their activity and to improve client service. Nowadays, continuous improvement stands not only for profound centralized changes but also for micro-improvements at the workplace. Whenever employees see that they can influence what they are doing and how, and understand the effect these measures have on clients, it makes everyone’s work more conscious and enhances the degree of employees’ involvement. In 2015, coaching programs were organized for employees in five cities — Ulyanovsk, Barnaul, Moscow, Yekaterinburg and Nizhny Novgorod, and each of them generated numerous ideas. The efficiency of Bank units and the quality of client service were certainly increased.

Another important area for increased efficiency of the Operations unit and Alfa-Bank in general is the promotion of the Bank’s project culture. Business line project committees were set up in 2014-2015 for that purpose, and templates of main documents and project fundamentals were developed. The system of project feasibility studies has also changed, as feasibility is the main criterion for decision making under the current circumstances. Much attention was given to the teaching of project culture: a distance-learning course in project management fundamentals was developed, employees were trained, and a project knowledge base was prepared. The work bore fruit — almost all projects were timely fulfilled, in strict compliance with budget limits and at an appropriate level.

An important factor of higher efficiency of the Operations unit and lower cost of client service is the relocation of certain functions from Moscow to regional operational centers. The relocation involved 455 positions in 2015. For the first time ever, corporate client service functions were successfully reassigned from Moscow to regions — service quality did not change and costs were reduced. The administrative staff in Moscow was optimized. The relocation applied to positions in the Operations, Retail Business and the IT unit. The aggregate financial effect from relocation topped RUB 200 mln in 2015.

Another serious change occurred in the staff size management model in 2015 — the «end product» concept was introduced for assessing the workload and efficiency of employees. Previously the workload was assessed by operations performed by an employee. Now, the
current criterion is the end result of these operations, for instance the recovery of arrears under a particular agreement or the recounting of funds in a cash bag accepted from the client. The value of each employee and personal contribution to the joint work became clear. The efficiency of employees grew by more than 15% during the year. This is a big success, which reduces the cost of client services. The model also helped avoid personnel enlargement amid the appearance of new tasks.

Operational risk monitoring and management

The creation of a working model for operational risk control was an important task for the Operations unit in recent years, and it was successfully accomplished. The primary objective of risk management is that all Bank employees understand what an operational risk is, report uncovered risks and take measures towards their prevention. Numerous training events were held to reach that objective. On the other hand, every unit was tasked to assess current risks, their probability and ways to minimize them. Risk minimization or prevention plans were drawn up for every significant risk. Ninety percent of plans were fulfilled by the Operations unit. The fulfillment of plans to minimize operational risks uncovered in self-assessment reduced such risks by more than a third. The program for development of employees’ operational risk management competences yielded the Knowledge Base, the Center of Competences, and a professional community dealing with operational risks. The third pool of measures was centered on a plan of action for non-standard situations. Protocols were created and tested for an IT failure and minimization of client loss from system downtime. The development of an algorithm for a situation requiring reallocation of employees from one unit to another for dealing with extra workload was very important. Also, a model of redistributing workload between cities was created to avoid such situations. The Operational unit passed its crisis test.

Risks created by bad debts deserve special mention. We largely improved the recovery of arrears last year thanks to additional measures taken in the difficult economic environment. A lot was done for actualizing client data, for instance, by means of ATMs. The format of telephone communication with third persons was changed — the manner of communication became less insistent and milder, which raised the percentage of contacts obtained from our clients. These and many other measures have had good deliverables, which we hope to retain in the future.

Teamwork

Competences of Operations unit employees were assessed in September 2015. The test, which engaged the entire unit team, covered professional skills and broader subjects, such as talent management, strategic matters, risk management and project culture. Some 99.5% of the employees successfully passed the test, which testified to the perfect training and high competences of the unit team. Those who failed the test had an opportunity to address gaps in their knowledge and to give the test another try. Importantly, the test was also taken by executives, who must always be ready to answer any questions of their subordinates and follow the leadership competence model as a whole.

Interaction with other units

Year after year, the interaction between the Operations unit and other Bank units becomes more active and yields a greater synergistic effect. The notion of «business partnership» was added to that cooperation in 2015. The first unit to actively use the interaction model was Retail Business. A special session started the process for Retail Business employees to decide which tasks they wanted to set for the Operations unit. A plan of action was devised for the achievement of those goals. Similar work will begin with the Mass, Medium Corporate and Investment Business units in 2016.

Goals and Tasks for 2016

We realize that next year may also be complicated, primarily in terms of arrears recovery, in the contracting economy. The ongoing economic situation and pending legislative amendments are factors which may complicate the collection of bad debts even more. Yet we are prepared. We have done well in this area and we will continue to adjust our collection models and policy to the changing economic conditions in the country if necessary.

Although we were successful in raising the efficiency of units in 2015, we set new goals for next year. The continuous improvement culture, which has produced a tangible effect, will apply to practically all personnel of the unit in 2016, and we are expecting employees to suggest ways to increase their efficiency and the efficiency of their unit and the Bank in general.

The third task is to minimize paperwork. Significant steps have been made in this area, and we are ready to do more. This is an element of the comprehensive work that will make us closer to our clients, quicker, more understandable and more convenient.

Direct contact between the Operations unit and clients has been on the rise. Alongside the development of remote service channels, the quality of our work has more significance both for business units and for clients. We did much in 2015: the rapid opening of accounts, broad remote service options, high skills of employees and their ability to rapidly answer any question fully, meet the Alfa-Bank strategy aimed at a convenient and long-term relationship with clients.

Information Technology Department

Alfa-Bank has been an IT leader of the Russian financial market for years. The use of best available technologies is highly significant for the efficiency of Bank operations and customer satisfaction. Realizing the importance of information technologies, the Bank makes sizable investments in IT unit projects and has ranked at the top in terms of IT investment quality and efficiency over past few years. An internal audit conducted in 2015 confirmed the certificate of compliance of the Bank’s IT services management with international standard ISO/IEC 20000-1:2011.
In 2015, the IT unit demonstrated remarkable performance in the provision of continuous accessibility of client services. Systems’ development was planned consistent with the Alfa 3.0 strategy: new applications were created and current applications were updated with a focus on feedback from clients.

A lot changed in IT risk management: an IT risk management committee was set up as a subsidiary of the Operational Risk Management Committee. Seeking to minimize IT risks, the most probable risks were identified and a unique method was developed and broadly applied for assessing potential losses from failures.

The introduction of the SAP HCM system for key HR and payroll processes became a 2015 milestone. Finally, target architectures for remote banking services were run in pilot mode. This project is crucial to the Bank as a way to expand clientele irrespective of whether there is a Bank’s office in a particular city.

Functional interaction between the IT unit and business units of the Bank deserves a special mention. This improved customer orientation of IT processes and IT project management methods, which were a focal point in 2015. IT project methods were integrated with the Bank’s general corporate office project methodology, which helped standardize project documentation and reports and made project monitoring better.

We are proud to say that few banks in Russia have achieved a level of automated operations this high. All of these achievements resulted from the teamwork of IT unit employees. In 2016, the IT unit will successfully complete the implementation of the 2014-2016 IT Strategy and will form a new ambitious strategy for the period of 2017-2019. Emphasis will be placed on further use of an agile culture and dynamic integration of advanced DevOps technologies in IT unit operations.

FINANCIAL RISK MANAGEMENT

Alfa-Bank attaches great value to appropriate management of financial risk. The Bank is continuously improving its risk management system and strives to build its risk management system based on international standards and best risk management practices. The main goal of Alfa-Bank’s risk management is to achieve the optimum return-to-risk ratio for its transactions. In 2015, the Bank continued paying much attention to risk management enhancement as the key element of the successful bank development strategy. This year, the risk and capital management system of Alfa-Bank was brought into compliance with Bank of Russia Ordinance No. 3624-U of 15 April 2015 on the Requirements for the Risk and Capital Management System of Credit Institutions and Banking Groups.

Today, the established practice of risk management, taking account of financial risks (with a particular focus on management of significant risks — credit risk, market risk, operational risk, liquidity risk, interest rate risk involved in banking transactions, concentration risk as a part of significant risk management) is currently applied to all product lines and processes of the Bank. Significant risk management includes the management processes, establishment of risk limits and a system to control and report significant risks, capital adequacy and compliance with the risk limits. Risk management is made up of four key elements included in the risk management strategy: risk identification, risk assessment and mitigation, monitoring and control, and reporting.

As a part of its risk management system, Alfa-Bank is also focused on development of internal rating-based models of credit risk assessment up to the standards established by the Basel Committee on Banking Supervision and adapted by the Bank of Russia, on enhancement of the internal framework and processes of risk management for maintaining and strengthening its positions on the banking service market. Developing the risk management system up to the Basel standards is one of the paramount objectives of the Bank, while attaching priority to development of non-retail credit risk models. The Bank is developing its credit rating-based approach on the basis of its internal models, risk indicator system, and risk strategy, revising its credit decision matrix, strengthening its IT base and introducing data quality management standards.

Risk Management: Organizational Structure

Alfa-Bank’s Board of Directors is jointly responsible for and controls the organization of the risk and capital management system, approves the framework documents on risk management and
risk appetite of the Bank, reviews ICAAP reports, and reviews and approves large, high-risk transactions.

The Audit Committee of the Board of Directors is responsible for assessing the efficiency of the effective processes in the area of risk management and internal control, for monitoring the reliability of the system designed to manage them and for generating proposals on their improvement to be submitted to the Board of Directors.

The Staff and Remuneration Committee of the Board of Directors is responsible for the preview, analysis and generation of proposals for the Board of Directors relating to the system of remuneration adjustment and recruitment, which exerts a significant effect on the risk management system of the Bank and development and enhancement of the internal remuneration-related documents of the Bank.

The Executive Board of the Bank approves the risk and capital management processes and stress-test processes based on the risk and capital management strategy, is responsible for monitoring and implementing the risk mitigation measures based on the optimum balance between the Bank’s goals, ROC level demanded by the shareholders and the risk appetite of the Bank, ensures ICAAP performance and reviews ICAAP reports.

The Strategic Risk Committee (SRC) is the superior committee in the risk management system. The SRC establishes and regulates the risk management system and determines potential risks assumed by the Bank under different types of transactions beyond the competence of the other committees of the Bank, approves the results of significant risk identification, risk assessment frameworks/models and validation reports and controls significant risks.

Efficient control and risk management are performed by the Risk Management Committees (Main Credit Committee, Subcommittee of MCC for Capital Market Counterparties, Small Credit Committee, Retail Credit Committee, Asset and Liability Committee, Operational Risks Management Committee, Strategic Steering Committee), Risk Management Directorate (including the Chief Risk Officer) and the Treasury.

The Risk Management Directorate is responsible for the functioning of the risk management system, and overall risk management while ensuring application of the unified principles and frameworks to identify, assess, manage and communicate information to the management. The Risk Management Directorate encompasses the following business units: Credit Risk Department, Retail Risk Committee, Asset and Liability Committee, Operational Risk Management Division, Risk Reporting and Risk Control Department.

The Overdue Debt Collection Directorate (ODCD) and the Troubled Debt Committee (TBC) manage troubled debt and are also fully independent of the Risk Management Directorate. TBC considers proposals on handling corporate overdue debt, including the recovery strategy, proposes solutions to recover corporate overdue debt and submits them to MCC for consideration. ODODC implements the approved strategy. ODODC is under the authority of the Chairman of the Board. Represented by the ODODC director, TBC reports to the Main Credit Committee.

Delinquent debt in the retail segment is managed by the Retail Risk Department (including development of the decision making rules and regulations). The Customer Recovery Division of the Retail Client Operations and Services Department of the Operations is responsible for taking measures to restore debt servicing, to recover delinquent principal amounts of loans, and to identify any transactions to be written off as overdue bad debt. Where applicable, an external collection agency may be engaged to perform collections pursuant to an agency agreement.

Credit Risk

Alfa-Bank assumes the credit risk — the risk of losses by the bank due to non-performance, late or partial performance by an obligor of its financial liabilities to the Bank pursuant agreement. The Bank singles out the management of retail and non-retail risk and counterparty credit risk within the Credit Risk Managements System.

Non-retail Credit Risk. General Principles of Management

Non-retail credit risk is managed through the Credit Risk Department and Non-retail Credit Committees (Main Credit Committee/MCC and Small Credit Committee/SCC), while MCC has the highest level of authority.

Credit risks are structured subject to the product, borrower, industry segment, etc. Each borrower is assigned a risk limit. Limits are constantly controlled and regularly revised.

The Bank controls the level of non-retail credit risk by establishing the credit risk concentration limits for Bank capital (credit risk concentration limit per borrower/group of related borrowers, credit risk concentration limits for shareholders and insiders, limit of total amount of large credit exposures), credit risk concentration limits in the loan portfolio (on the basis of the borrowers’ ratings, level of security based on the rating, by economic sectors, etc.), lending limits per specified borrowers/group of related borrowers, limits for transaction with counterparty banks and administrative limits.

The Bank defines its approaches to lending to borrowers by approving its credit policy where it establishes the authority to make risk-related decisions by its committees and defines its system for special approval of major transactions. The credit policy is subject to regular revision. Prime rated Russian companies are the target lending segment.

The Credit Committees of Alfa-Bank are responsible for approval of transactions with credit risk. Subject to the credit risk materiality, decisions are made either by the Main Credit Committee or the Small Credit Committee. Under certain conditions, transactions approved by the Main Credit Committee are also subject to approval by the Executive Board or the Board of Directors.
Non-retail Credit Risk. Lending Process and Risk Assessment

The approaches applicable in corporate lending are based on the standardized underwriting process (in view of the borrower’s segment) including the credit check of potential borrower, quality of the offered collateral and compliance of the transaction structure with the policy and limits of the Bank while assigning internal ratings based on the statistical models according to the internal processes and procedures and in compliance with the Basel II standards.

The Basel II Standards are introduced in all essential processes of corporate lending: (a) developing the internal framework for credit scoring and collateral management and pricing; (b) developing segmentation approaches; (c) integrating the internal rating-based models into the credit decision-making process; (d) credit monitoring and monitoring internal models performance; (e) default definition; and (f) troubled debt management process.

The Corporate Lending Directorate considers potential transactions focusing on analysis of financial stability, cash flow adequacy, long-term sustainability, credit history and competitive standing. Based on the risk assessment of a borrower, the latter is assigned an internal rating. The rating is assigned on the basis of the internal rating-based approach. Internal ratings are based on financial, nonfinancial and other essential information. Customers’ ratings are used both in the credit process and for pricing.

The Bank uses the following rating categories: prime rated borrower, good and high-quality borrower, potentially unsound borrower, unsound borrower and credit impaired borrower.

The Risk Management Directorate analyzes transactions and verifies ratings assigned, and issues its opinion. The opinion of the Risk Management Directorate and the customer financial analysis are submitted to the respective Credit Committee. The Credit Committees analyze loan applications to approve credit limits based on the information provided. The limit is established to limit the exposure per borrower / group of borrowers.

Non-retail Credit Risk. Monitoring

Credit exposure is subject to ongoing monitoring. In the case of deterioration of any borrower’s creditworthiness and identification of multiple negative alerts, such customer is to be put on the Checklist and separate monitoring of potential future deterioration of their credit quality is performed. The borrower credit quality change dynamics are submitted to the respective Credit Committee for analysis and supervision.

With a view of credit risk management, the Bank has broken down its non-retail loan portfolio into the following pools:

Performing loans, including loans with technical delinquency and up to 14-day delinquency. Checklist, including loans with identified early alerts of future deterioration of the loan quality.

Non-performing loans, including loans with impairment indicators and 14-day delinquent loans to be managed by the Troubled Debt Committee.

Default loans with 90-day delinquency or with any other default indicators regardless of their rating. Concentration limits in the portfolios are checked on a weekly basis. The concentration report is submitted to the Main Credit Committee with description of situations when concentration is close to the maximum level. The Main Credit Committee ensures that the impact of new transactions on the concentration in the portfolio matches the risk appetite of the Bank and the portfolio limit structure.

Alfa-Bank pays great attention to the handling of non-performing loans and provides the respective information to MCC on a weekly basis. The Troubled Debt Committee analyzes non-performing loans on a weekly basis. Such analysis includes any prospects for recovery, seizure of collateral, court proceedings to recover debt, debt restructuring terms and conditions and the requirement to provide additional collateral to secure a loan.

Non-retail Credit Risk. Control

Alfa-Bank has built a risk control system through which to channel all its credit risk-related transactions. The purpose of the applicable control is to ensure strict compliance with internal policies, processes and procedures. The Bank uses the following controls to facilitate efficient risk management: generating regular portfolio reports and regularly submitting such reports to the respective committee; determining the core principles of its credit policy; regularly analyzing the necessity for revision of the policy principles; using a statistics-based mechanism for decision-making; and continuous monitoring of the existing credit process by the Risk Management Directorate and the Internal Audit Department for performance evaluation and introduction of changes, when appropriate.

Non-retail Credit Risk. Credit Risk Mitigation

Alfa-Bank uses a wide range of techniques to mitigate the credit risk of its lending transactions while managing the factors of losses from separate transactions, such as probability of default (PD), loss given default and exposure at default and the systemic risk factors for the whole portfolio.

For each transaction, the borrower’s ability to service the expected level of indebtedness is assessed. To mitigate its risk, the Bank accepts security in the form of various types of collateral, such as suretyships of legal entities and individuals and bank guarantees.

The credit risk premium calculated in view of the customer’s PD is included in the risk assessment and considered in pricing. The risk premium ensures a fair compensation for the credit risk assumed by the Bank.
Counterparty Credit Risk

The credit risks of counterparty transactions are analyzed by the Counterparty Division of the Credit Risk Department. Counterparty credit risk is managed using a system of limits assigned to separate counterparties and groups of counterparties subject to the transaction types, risk level and maturity of transactions, decisions on which are made pursuant to the effective decision making processes established in the Bank.

The key driver for making decisions on establishment of credit risk limits for counterparties is each counterparty’s financial standing. The financial standing of counterparties is assessed using the internal rating-based models for estimating PD in compliance with the Basel principles for supervision and by expertise based on financial statements, market quotations and mass-media information. In the case of securities transactions, the collateral is also analyzed in addition to assessment of the counterparty’s financial standing. To mitigate credit risk of counterparty transactions, the Bank uses legal agreements to provide for netting. When making decisions on large transactions using financial derivatives subject to approval by the collective bodies of the Bank, account is taken of wrong-way risk (i.e. positive correlation between the credit exposure and counterparty PD).

Retail Credit Risk. General Principles of Management

Retail loans are managed by the Retail Risks Department, Retail Credit Committee and Main Credit Committee (for customers of Mass Business unit).

The Retail Risks Department of the Risk Management Directorate is responsible for credit risk of such products as credit cards, personal installment loans, installment loans, auto-loans, mortgage lending, and products offered to mass businesses (which include individual entrepreneurs and legal entities incorporated in compliance with the Laws of the Russian Federation whose annual revenue amounts up to RUB 360 mln according to their financial statements).

The Retail Lending Policy and the Mass Business Lending Policy establish retail risk management principles, risk identification, assessment, monitoring and control, including portfolio management and allocation of responsibility for retail risk management. The retail credit risk management policy of the Bank is focused on formation a portfolio subject to the least degree of volatility and ensuring the target risk-return ratio.

Credit Risk Committee approves the credit policy of the retail business, retail credit product parameters and pricing (interest rates, fees and penalties), and approves the credit product offering process and the key processes to control risks in the retail business. Committee meetings are convened monthly.

The Main Credit Committee approves the Mass Business Lending Policy, credit product parameters, credit product offering process and the key processes to control risks in the Mass Business unit.

Retail Credit Risk. Lending Process and Risk Assessment

In retail lending, the credit decision-making process is based on the principles of standardization and automation of processes and procedures used, which include both manual verification of applicant’s data and an automated risk assessment processes.

Automated risk assessment is performed using statistical models (scoring) based on analysis of the existing loan portfolio and the borrowers’ characteristics. Scoring uses questionnaire data, history of customer’s relationship with the Bank and information from external sources (such as the Credit Bureau). The internal models for PD, EAD/LGD are used; such models are developed in view of the internal rating-based approach and scoring models of other types (for example, borrower fraud detection model).

The Bank regularly controls stability and efficiency of the risk assessment process and statistical models while making respective adjustments, when appropriate.

Retail Credit Risk. Monitoring

The retail portfolios are monitored by the Retail Risk Department of the Risk Management Directorate on a regular basis. Such monitoring includes tracking of the following indicators: approvals/rejections for customer products/segments; delinquency (both long-term and incidental); migration parameters (shift of delinquent balances between various delinquency groups); rate of conversion of promised payments to actual payments to track recovery efficiency; indicators of historic losses by products and vintages; special pilot programs; write-off indicators per product portfolio; reimbursements per product portfolio; stability of risk assessment processes; results product-wise where such assessments are used; and efficiency/effectiveness of segmentation processes. As a part of the above monitoring, the Bank is specially focused on the risk-adjusted margin to optimize profitability of its retail portfolios.

The retail lending processes are from time to time updated upon changes in economic conditions and also according to validation recommendations. Calibration might trigger changes in the cut-off criteria, credit limits and debt to equity ratios, verification standards and minimum criteria for approving borrowers.

Retail Credit Risk. Credit Risk Mitigation

To improve the efficiency of retail loan repayment, the Retail Risk Department of the Risk Management Directorate uses statistical models allowing for identification of lending transactions with a high risk of deterioration of the borrower’s payment behaviour and the use of optimum processes for debt recovery on a timely basis. The efficiency of the statistical models and recovery processes is tracked as a part of retail credit risk monitoring based on regular internal reporting.
FINANCIAL RISK MANAGEMENT

Market Risk
Alfa-Bank assumes market risks, i.e. risks of changes in the value of the Banks’ positions due to changing market indicators: security values, stock indexes, exchange rates, book prices for precious metals and interest rates.

Market risk is managed by the Market Risk Management Division, Treasury and Asset and Liability Committee (ALCO).

The market risk of the trading portfolio is assessed in the Bank in compliance with Regulation 387-P to ensure compliance with the statutory ratios for banks established by Instruction 139-I. The Bank manages its market risks based on the principles set out in the internal documents of the Bank, in particular, in the Market Risk Management Policy approved by the Executive Board of the Bank.

Market Risk of Investment Activity (Trading Book)
Exposure of the Bank’s trading book to market risk is managed by means of restrictions established for the risk metrics used in the Bank and for the admissible instrument list established by the Asset and Liability Committee (ALCO). The Bank uses the following metrics — risk-weighted assets, one-day 99% VaR, and open securities position — to assess its market risk in the trading book.

Market Risk in the Trading Book
The Asset and Liability Committee establishes limits to control its market risk in the bank book: limits for its interest rate risk metrics and open currency position limit.

Equity (Price) Risk
To quantify the risk of the Bank’s financial instruments included in the trading position of the investment business, the Bank uses open position limits, risk in compliance with Regulation 387-P and VaR limits. The equity risk is on the list of the risks included in the calculation of such metrics.

Exchange Rate Risk
The Bank is exposed to exchange rate risk in the bank book and the trading position of the investment bank. Alfa-Bank Treasury is responsible for centralized management of the exchange rate risk of the bank book (strategic position). The Corporate-Investment Bank is responsible for managing the exchange rate risk of the trading position. ALCO separately establishes limits for the open strategic currency position controlled by the Treasury and the trading currency position controlled by the Risk Management Directorate. ALCO also establishes the limit for the Bank’s total position controlled by the Treasury. Alfa-Bank uses derivatives to manage its current and anticipated risk arising in connection with its open currency position.

The Bank daily generates its report on the open currency position in compliance with the Bank of Russia regulations to limit the level of exchange rate risk. The Bank includes its currency position in calculation of risk limits utilization in compliance with Regulation 387-P and VaR limits.

Interest Rate Risk
Alfa-Bank is exposed to interest rate risk, first of all as a result of its fixed interest rate lending for the amounts and with maturity other than the amounts and maturity of deposits and other borrowed funds with fixed or variable interest rates.

To control its interest rate risk related to the risk of deterioration of its financial standing due to decreasing net interest income as a result of changes in the interest rates on the financial market, the Bank regularly estimates changes in its net interest income based on the assumption of changing (increasing or decreasing) interest rates.

The Bank uses two sets of metrics: metrics of sensitivity of the bank’s «present value» to changing interest rates (PV / Present Value metrics) and metrics of sensitivity of the anticipated net interest income of the bank over a one year horizon to changing interest rates (EaR / Earnings at Risk metrics) as interest rate risk metrics.

Such metrics are established by the Asset and Liability Committee and calculated once a week currency-wise. The framework for calculation of interest rate risk metrics and material assumptions in calculation of interest rate risk metrics are approved by ALCO.

Pursuant to the effective Interest Rate Policy, the Bank has arranged a procedure for limiting the interest rate risk. Under the above procedure, interest rate risk limits are established. Such metrics are established by ALCO and calculated once a week currency-wise. The framework for calculation of interest rate risk metrics and material assumptions in calculation of interest rate risk metrics are approved by ALCO.

Liquidity Risks
Liquidity risk is recognized to be the risk of inability by Alfa-Bank to finance its activity, i.e. to ensure growth of its assets and to meet its obligations as they fall due without incurring losses for any amount jeopardizing the financial soundness of Alfa-Bank. Liquidity risk is managed by the Treasury. Liquidity risk is controlled by ALCO.

Alfa-Bank maintains a stable funding base including, first of all, the amounts payable under retail and corporate deposits, under issued debt securities and payable to other banks and maintains the adequate diversified portfolios of liquid assets so that it is able to respond timely to contingent claims to provide liquidity.
In liquidity management, Alfa-Bank continuously:
- analyzes the level of its liquid assets needed to settle its obligations as they fall due;
- ensures availability of various sources of funding;
- adjusts its plans to meet its funding problems; and
- controls compliance of its balance sheet liquidity ratios with the laws.

Liquidity risk is managed by controlling compliance with various limits and liquidity metrics established both by the Bank of Russia and Alfa-Bank (while taking account of the recommendations of the Basel Committee on Banking Supervision):
- On a daily basis — liquidity ratios in compliance with of the Bank of Russia standards;
- On a monthly basis — Liquidity Coverage Ratio (LCR, Basel III);
- Availability of the adequate portfolio of short-term liquid assets, mainly encompassing marketable trading securities included in the Lombard list of the Bank of Russia, deposits with banks and other interbank instruments;
- Controlling the amount of raised short-term interbank loans to bridge its maturity gap;
- Controlling the daily liquidity position and regularly carrying out liquidity stress-tests according to various scenarios covering both standard and crisis market conditions;
- Compliance of the Net Stable Funding Ratio (NSFR) with the established targets. NSFR is developed using the framework of the Bank based on the Net Stable Funding Ratio (NSFR), Basel III;
- Assessing the market position of Alfa-Bank using Cost of Funding metrics — comparing the cost of funds raised by the Bank against the main rival banks; and
- Compliance of funding source concentration with the established targets.

- Information about the dynamics of liquidity ratios, loan-to-deposit ratios, stress testing results, liquidity of financial assets and liabilities is regularly communicated to ALCO, the Credit Committees and Alfa-Bank management.

Operational Risk

Operational risk is the risk that the Bank will incur losses as a result of unreliability of the internal management processes and procedures of the Bank, negligence of employees, failure of its information systems or influence of external events on the Bank’s activity. Operational risk management is a set of processes to identify, assess, monitor, control and/or mitigate its operational risk.

The instruments designed to detect and assess operational risks used in Alfa-Bank to manage its operational risk are as follows:
- Process Analysis;
- Collection and analysis of data on operational risk events in the Bank;
- Collection and analysis of data on operational risk events in other credit institutions;
- Risk and Control Self-Assessment (RCSA);
- Key Risk Indicators (KRI); and
- Scenario Analysis.

The measurement method is used for internal management of operational risk; such method is based on expert evaluation using findings while gathering data on operational risk realization cases, scenario analysis and the key risk indicator system. The statistics obtained during analysis of the collected information are used as supplementary information in expert evaluation of materiality and probability of risk for its quantification. Materiality is based on the materiality matrix. Each materiality level corresponds to the specific risk level. The probability of risk is estimated only on the basis of internal data and expert opinion.

The operational risk management policy in the Bank is defined by the Management Committee on Operational Risks (MCOR). MCOR approves events, processes and technologies to detect, identify, assess, control, prevent, and mitigate operational risks. Within the competence established by the Executive Board of the Bank, MCOR assumes operational risks within the risk appetite determined for a calendar year.

Stress Testing

Stress testing is an important element of decision making on potential adjustments to be made to its business and strategy to prevent the exceeding of the possible loss level in case of maximum adverse scenarios of acceptable level of losses within its risk appetite system. As a part of its internal capital adequacy assessment processes, Alfa-Bank assesses its capital adequacy of its significant risks under stress.

Alfa-Bank continuously modifies, revises and amends its existing risk management approaches, in particular its approaches to capital adequacy stress testing. Changing factors of the economic environment and changes in the supervision and regulation are taken into consideration.

Stress testing means analysis of macroeconomic scenarios. The key external macroeconomic factors, which determine the stressful scenario, are Russian GDP, USD/RUB exchange rate, oil price and lending rate.

Alfa-Bank carries out stress testing in compliance with its internal capital adequacy assessment processes (Basel II, Pillar 2) and develops its framework for internal ratings-based approach to stress testing (Basel II, Pillar 1).

Liquidity risk stress testing is performed pursuant to the Liquidity Policy of Alfa-Bank on a daily basis by calculating two liquidity scenarios: a Business as Usual Scenario and a Crisis Scenario.
Fundamental Principles of the Bank in the Area of Risk and Capital Management

Pursuant to Bank of Russia Ordinance No. 3624 of 15 April 2015 on the Requirements for the Risk and Capital Management System of Credit Institutions and Banking Groups, Alfa-Bank has introduced an internal capital adequacy assessment processes (ICAAP) at the individual level. In 2016, Alfa-Bank is organizing actions necessary to introduce ICAAP throughout the group by 31 December 2016.

Alfa-Bank has developed and adopted key documents on risk and capital management approved by the Board of Directors: Risk and Capital Management Strategy; Process to Manage the Most Significant Risks; Process to Develop, Approve, Validate, and Apply the Bank’s Risk Management Framework and Risk Measurement Models; Risk Appetite Regulation; and Plan to Restore Financial Strength and Viability. The Executive Board has approved the Framework for listing the significant risks of AO «ALFA-BANK».

ALFA-BANK’S COMPLIANCE WITH THE CODE OF CORPORATE CONDUCT

Alfa-Bank complies with the recommendations of the Corporate Governance Code recommended by the Bank of Russia (Letter of the Bank of Russia No. 06-52/2463 of 10 April 2014 «About the Corporate Governance Code»).

In accordance with the standards of corporate governance and in order to improve the system in late 2013, the Extraordinary General Meeting of Shareholders approved the Corporate Governance Code of the Bank (Minutes No. 02-2013 of 12 February 2013) developed in accordance with the provisions of the applicable laws of the Russian Federation, regulations of the Bank of Russia, and Corporate Governance Code recommended by the Central Bank of Russia.

The Bank's Corporate Governance Code is an internal regulatory instrument that defines the basic principles, rules and standards of corporate governance by which the Bank is guided in its activities, including those governing the following areas: protection of rights and legitimate interests of shareholders, organization of the Board of Directors and executive bodies, implementation of strategic management, coordination of risk management and internal control, prevention and settlement of conflicts of interest, disclosure of information and procedure for taking significant corporate actions.

Under the Code, the Bank is guided in its activities according to the following general principles of corporate governance:

- Compliance with laws, other regulations, the Articles of Association and internal instruments of the Bank;
- Enforcement and protection of the rights of the Bank's shareholders;
- Equal (subject to the requirements of regulations) treatment of the Bank's shareholders;
- Accountability of the Board of Directors to the Bank's shareholders;
- Strategic management of the Bank by the Board of Directors;
- Effective control by the Board of Directors of the activities of the Bank's executive bodies;
- Provision of scope for executive bodies to carry out effective management of the current activities of the Bank reasonably, in good faith and solely for the benefit of the Bank, including accountability of executive bodies to the Board of Directors and shareholders of the Bank;
• Ensuring establishment and effective functioning of a system for risk management and internal control;
• Ensuring timely disclosure of full and accurate information about the Bank; and
• Openness and transparency of the major corporate actions, subject to enforcement and protection the Bank's shareholders rights.

Shareholder rights and equality

The Bank ensures shareholder rights and equal conditions for their use. The procedure for convocation, preparation and holding of a general meeting of shareholders is regulated by the Rules for General Shareholders’ Meeting approved by a general meeting of Bank shareholders (Protocol No. 02-2015 of the Extraordinary General Meeting of Shareholders dated 21 October 2015).

The shareholders enjoy an equal and fair opportunity to participate in the attribution of profits by means of dividends. The Bank does not pay dividends in the case that this decision, although formally not violating legal restrictions, is infeasible and may create a false impression about Bank operations.

Protection of shareholders’ proprietary rights and freedom to use one’s shares are guaranteed by the Bank’s choice of its registrar, Independent Registrar Company JSC, a highly reputed entity possessing calibrated reliable technologies for efficient account of proprietary rights and use of shareholders’ rights.

Bank Board of Directors

The Board of Directors exercises strategic control over the Bank, supervises bank risk management and preparation and performance of efficient internal control, oversees the activity of Bank executive bodies, and executes other key functions. The Board of Directors is accountable to the General Shareholders’ Meeting.

The Regulations on the Board of Directors approved by a general meeting of Bank shareholders (Protocol No. 02-2015 of the Extraordinary General Shareholders’ Meeting dated 21 October 2015) define rights and obligations of the Board of Directors’ members, the procedure for preparation and holding of the Board of Directors’ meetings and requirements for members of the Board of Directors, including their high professional and business reputation, competence and professional experience enabling them to assess information about Bank activities and the market environment for making professional judgments on Bank operations.

The Board of Directors is comprised of 11 members, one of whom (Marei A.A.) is also a member of the Bank Executive Board, three of whom (Fridman M.M., Aven P.O. and Kosogov A.N.) are the Bank’s ultimate beneficiaries, one of whom (Vasiliev S.A.) represents State Corporation ‘Bank for Development and Foreign Economic Affairs’ (Vnesheconombank) and one of whom (Kaufman E.S.) is an independent member of the Board of Directors by the criteria prescribed by the Corporate Management Code recommended by the Central Bank. In the opinion of the Board of Directors, this balance prevents a conflict of interest between the Bank, its shareholders and clients.

The Board of Directors’ activity is overseen by the Chairman who organizes its work, convenes and presides at meetings of the Board of Directors, signs protocols of the Board of Directors’ meetings, determines their agenda and form, presides at general meetings of shareholders, signs the contract with the Executive Board Chairman on behalf of the Bank and executes other functions prescribed by the Federal Law on Joint Stock Companies, the Bank Charter and the Regulations on the Board of Directors. In the absence of the Chairman of the Board of Directors, his functions are exercised by the First Deputy Chairman of the Board of Directors, and if the latter is also absent, by a member of the Board of Directors at the discretion of the Board of Directors.

For the purposes of initial consideration of major aspects of Bank activity, the Board of Directors formed two (2) theme committees in 2014, namely, the Audit Committee, tasked to assist in the Board of Directors’ efficient control over financial and economic operations of the Bank, and the Staff and Remuneration Committee, promoting the engagement of competent personnel in Bank management and the creation of incentives for their successful work.

The Board of Directors sets long-term objectives for the Bank, in particular, approving the Bank’s strategy, and monitoring its implementation. In 2015, the Bank was guided by the strategy for the period of 2015-2017 approved at a meeting of the Board of Directors on 17 November 2014 (Protocol No. 16-2014 dated 17 November 2014). Given the forecasted economic changes, the Bank’s strategy for 2016-2018 was prepared and approved in 2015 (Protocol No. 17-2015 of the Board of Directors’ meeting dated 28 September 2015) and the Bank's strategic plan for 2016-2018 was approved in December 2015 (Protocol No. 23-2015 of the Board of Directors’ meeting dated 28 December 2015).

The Board of Directors plays a key role in the prevention, detection and settlement of internal conflicts between management, shareholders and employees of the bank. The Board of Directors has approved the Bank’s Procedure for the Prevention of Conflict of Interest, which prescribes measures in the prevention of a conflict of interest in the Bank’s activity. For the same purposes, at the proposal of the Board of Directors, annual general meetings of shareholders approve related party transactions that might be performed by the Bank in the course of its routine activity with permanent partners, managerial bodies of which involve members of the Bank’s management. The Board of Directors approved the Alfa-Bank Corporate Ethics Code (Protocol No. 21-2015 of the Board of Directors’ meeting dated 15 December 2015) to spell out standards of the Bank activity and conduct of its employees for the sake of maintaining ethical standards, quality service, client convenience and increasing profitability, financial stability and efficiency of the Bank and its subsidiaries and affiliates. The Code is available to the general public on the Bank’s website. Bank employees and management have been personally informed about the Code. The Compliance Directorate monitors the fulfillment of the Code in the Bank. In furtherance of the Code, the Bank has prepared and approved the Regulations on Terms and Procedure of Related
An efficient system of risk management and internal control needs to be built at various executive levels.

The Board of Directors approves the risk and capital management strategy, risk tolerance regulations and a procedure for major risk management, controls the implementation of this procedure and endorses a procedure for using bank risk management methods and risk qualitative assessment models, including assessment of assets and liabilities, off-balance requirements and obligations of a credit institution, scenarios and results of stress testing.


The Executive Board, acting in accordance with the Charter and the Executive Board Regulations, provides the implementation of decisions made by the Board of Directors, sets the bank risk management and maximal profitability policy, and approves regulations and rules for Bank committees and other collegial bodies. The Executive Board is responsible for monitoring and reduction of risks and controls the compliance with prescribed risk parameters.

The system of risk management committees (the Strategic Risk Committee, the Chief Credit Committee, the Credit Committee, the Retail Credit Committee, the Asset and Liability Management Committee, the Management Committee on Operational Risk and others), the Risk Management Department (including Chief Risk Officer) and the Treasury efficiently control and manage risks. The Strategic Risk Committee is the senior committee of the risk management system, which establishes and regulates the risk management system, determines the Bank’s general risk management policy and strategy, and considers and modifies risk management principles system for the purposes of higher efficiency.

The Management Committee on Operational Risk was set up on the orders from the Executive Board to lay down the general operational risk management policy of the Bank. Its priority is maximum security of assets and capital through minimization of possible operational losses.

The Risk Management Department operating under relevant regulations provides operation of the risk management system, ensures the fulfillment of general bank risk management principles, detection and containment of risks, and notification of higher collegial bodies.

The Risk Management Department monitors and evaluates the level of bank risks, proposes measures for their containment and minimization, and implements such measures within the
areas of its units. For these purposes, the Department develops bank risk management policies and its executives participate in relevant committees and other collegial bodies.

Credit, market and interest risks of bank operations and liquidity risks at the level of portfolio and transactions are managed and controlled by the system of credit committees and the Asset and Liability Management Committee.

In line with the powers prescribed by the Bank’s constituent and internal documents, internal control is exercised by:

- Management bodies (the General Shareholders’ Meeting, the Board of Directors, the Executive Board, and the Executive Board Chairman);
- The Audit Commission;
- Collegial bodies created under decisions of the Bank’s Board of Directors and Executive Board;
- Heads (their deputies) of functional units created within the Bank’s organizational structure under decisions of the Bank’s Executive Board and orders of the Executive Board Chairman (hereinafter referred to as the Bank management);
- The Bank’s chief accountant (his deputies);
- Heads (their deputies) of functional units created within the organizational structure of the Bank’s branches under decisions of the Bank’s Executive Board and orders of the Executive Board Chairman, branch head (his deputies) and chief accountant (his deputies);
- Heads (their deputies) of operations and credit and cash offices of the Bank;
- Units and employees exercising internal control in accordance with their powers prescribed by the Bank’s internal documents, including:
  - The Internal Audit Service — a structural unit of the Bank operating in accordance with the Charter, the Regulations on the Internal Audit Service and provisions of Chapter 4 of Central Bank Regulations No. 242-P dated 16 December 2003 «On Internal Control in Credit Institutions and Bank Groups»;
  - The Internal Audit Service — structural units of the Bank operating in accordance with the Charter, the Regulations on the Internal Audit Service and provisions of Chapter 4.1 of Central Bank Regulations No. 242 dated 16 December 2003 «On Internal Control in Credit Institutions and Bank Groups»;
  - Employee (structural unit) authorized to prevent legalization (laundering) of illegal earnings and financing of terrorism, appointed (created) and operating in accordance with Clause 2 Article 7 of Federal Law No. 115-FZ dated 7 August 2001 «On Countering Legalization (Laundering) of Proceeds of Crime and Financing of Terrorism»;
  - Controller — securities market professional, an employee controlling the compliance of the Bank as a professional securities market actor with Russian security market laws, including normative acts of the Central Bank, normative legal acts of the federal securities market authority, Russian laws protecting rights and lawful interests of securities market investors, Russian advertisement laws and internal documents of the professional actor related to the activity on the securities market;
- and other units and employees within the limits of their duties specified by the Bank’s internal documents.

The Bank organized an internal audit for the purposes of systematic independent appraisal of the reliability and efficiency of the risk management and internal control system and corporate management practices.

An internal audit is organized by the designated structural unit, the Internal Audit Department accountable to the Board of Directors.

The Internal Audit Department operates under the principles of independence, impartiality, competence and professional attitude to work and continuous and unbiased activity, as well as Russian laws, normative acts of the Central Bank, and internal audit standards set by the international professional standards of internal audit and the ethics code of the Institute of Internal Auditors. The head of the Internal Audit Department is appointed, discharged and transferred on orders from the Bank’s Executive Board Chairman, under a decision of the Board of Directors. The Board of Directors approves work plans and reviews reports.

Disclosure of Bank information, Bank’s information policy

The Bank discloses information about its activity in accordance with Russian laws, on the principles of reliability, regularity and timeliness and a balance between the Bank’s transparency and provision of its lawful interests.

For the purposes of transparency, timeliness and fullness of the disclosure of Bank information, unhindered access of shareholders to the Bank’s documents, and assignment of persons responsible for the disclosure of information, the Bank uses the following the package of information policy documents:

- Regulations on interaction between units in the disclosure of Alfa-Bank information as an issuer of securities;
- List of the Bank’s insider information;
- Regulations on interaction between units in the disclosure of the Bank’s insider information;
- Regulations on commercial and bank secrets and proprietary information of limited distribution;
- List of information constituting commercial and bank secrets, proprietary information of limited distribution in compliance with legislative requirements.


The Bank provides information and documents at the request of shareholders on the principles of equal and unhindered access.

**Significant corporate actions**

The Bank’s Corporate Management Code defines the following as significant corporate actions:

- Bank reorganization;
- Modification (reduction or enlargement) of the Bank’s charter capital;
- Essential amendments to the Bank Charter;
- Major transactions;
- Related party transactions; and
- Listing and delisting of the Bank’s shares.

Separation of powers between the Bank’s management bodies in decisions pertaining to significant corporate actions is a key element of the corporate management system aimed to protect lawful interests and rights of Bank shareholders and security of Bank assets.

The Bank’s management bodies ensure shareholders’ participation in decisions on significant corporate actions, in accordance with Russian laws and the Bank Charter.

The Bank has created a system of interaction between its units in significant corporate actions. The Bank’s units do their best to ensure compliance with the transaction procedure and duly present transactions for approval by relevant management bodies of the Bank.

Information about significant corporate actions performed in the course of Bank operations is disclosed as prescribed by Russian laws.

Control over the compliance with procedures in making decisions on significant corporate actions is exercised by the Bank’s Audit Committee.

The Bank’s Internal Audit Service, assessing the efficiency of the internal control system, may hold spot checks of the compliance with procedures for decisions on significant corporate actions.

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**PARTNERS**

**AlfaStrakhovanie Group**

AlfaStrakhovanie Group includes AlfaStrakhovanie PLC, AlfaStrakhovanie-Life LLC, Medicine AlfaStrakhovanie LLC, AlfaStrakhovanie-OMS LLC, Yugoria-Med Insurance Medical Company PLC and ASKO-ZABOTA Medical Insurance Company LLC.

AlfaStrakhovanie Group is a part of the financial and industrial Alfa-Group Consortium, which includes Alfa-Bank, Alfa Capital, Alfa Capital Partners, A1, Rosvodokanal and XS Retail Group N.V.

The consolidated authorized capital of AlfaStrakhovanie Group amounts to RUB 8.5 bln. Under its license, the company provides more than 100 insurance products. The regional network of AlfaStrakhovanie Group includes more than 400 regional departments all over Russia.

AlfaStrakhovanie Group is accredited by the largest banks: Sberbank of Russia, VTB, VTB 24, Gazprombank, Alfa-Bank, Russian Agricultural Bank, Raiffeisen Bank, MDM Bank, Unicredit and others.

For 2015, the premiums of the AlfaStrakhovanie Group totaled RUB 233.5 bln, with the market share reaching 9.1%. The premiums excluding obligatory medical increased to RUB 67.4 bln, with market share up to 6.6%. The company ranks 5th on the compulsory health insurance markets and generally in the areas other than CHI, while on the entire insurance market it has strengthened its positions and climbed to 3rd place.

**Main principles**

AlfaStrakhovanie Group has the reputation of a stable and reliable company. High reliability of insurance operations is further supported by reinsurance programs provided by world’s largest companies: Munich Re, Swiss Re, Hannover Re, SCOR, GenRe and also by Partner Re and Lloyd’s of London Corporation, work through the international brokers Willis Limited, Marsh, AON Benfield, etc.
AlfaStrakhovanie Group is one of the five leading companies on the Russian insurance market according to the Russian rating agency Expert RA. This agency assigned to the Group the highest level A++ of reliability rating in 2003. The Group has also been rated by Fitch and has the AA- level of reliability on the national scale and BB level on the international scale with stable outlooks.

The basis of the Group is the improvement of service and the development of new insurance products to meet the individual needs of particular customers. In 2014, the company was the first company in Russia to launch online sales of classic comprehensive and collision insurance for owners of new vehicles, as well as Russia’s first online insurance product for businesses — «AlfaOfis», which allows tenants to insure against civil liability to third parties, opened the sales of the product category «smart insurance» — a service for the insurance of telematics and two products in the field of international health insurance to cover a wide range of diseases, including oncology and cardiovascular disease, and organ transplants. In 2015, AlfaStrakhovanie launched a mobile application «AlfaStrakhovanie Mobile» — the first ever such service application on the insurance market.

Clients

Group services are used by more than 20.4 million private clients and more than 440 thousand businesses including the leading banks, largest ship owners and carriers, atomic energy, metals and machinery companies, representative offices of the largest foreign companies and public and government organizations and institutions. Among all the corporate clients and partners of AlfaStrakhovanie Group are Aeroflot, Alfa-Bank, Magnitogorsk Iron and Steel Works, RusHydro, VimpelCom, Sheremetyevo International Airport, Yokohama, Sberbank of Russia, Volgotean, etc.

Recognition

- AlfaStrakhovanie executives for the 12th time in a row have joined the annual rating of the Top-1000 Russian Managers. The final rating includes all company candidates declared for the contest in six functional areas.
- Expert RA recognized AlfaStrakhovanie as the leader on the financial risks insurance market.
- AlfaStrakhovanie became the winner of the National Business Award «Company of the Year 2014» in the category «Insurance Company».
- The mobile application AlfaStrakhovanie Mobile was included in the rating «Russian Software: Achievements & Innovations» Best Soft 2015 compiled by PC Magazine/RE, one of the oldest Russian IT publications.
- AlfaStrakhovanie won the World Finance 2015 — the most prestigious contest in the world of finance, which has been held already for several years by the authoritative British journal World Finance Media. AlfaStrakhovanie was also recognized the best insurance company of the year in Russia.

Alfa-Capital Asset Management

Alfa Capital is one of the leaders among asset management companies in Russia. Alfa Capital is in the top-10 asset management companies by total volume of assets under management as determined by the Expert RA ratings agency. The company is the frontrunner on the individual trust management market, and comes second by the volume of endowment funds’ assets under management, as per Expert RA data. Alfa Capital is in the top-three by net asset value of its opened funds with a net asset value of RUB 16 bln.

M&A segment activity

Alfa Capital merged eight of Interfin Capital’s mutual funds under its management. As the result of the merger, Alfa Capital Asset Management is in the top-three by largest net asset value of open-ended equity mutual funds company with the total of RUB 8.5 bln. Net asset value of attachable funds on 27th of July 2015 is RUB 612 mln.

Retail products

In 2015, Alfa Capital Asset Management completed the merger of open-ended equity mutual fund «Alfa Capital Stocks» and open-ended equity fund «Alfa Capital Liquid Stocks».

In 2015, Alfa Capital Asset Management became an absolute leader among other asset management companies on the market by the volume of client’s assets in open-ended equity mutual funds. Alfa Capital showed the record profit on Russian asset management market of RUB 4.2 bln.

In 2015, Alfa Capital’s share on open-ended equity mutual funds market grew to 12.5%, which is a 4.5% increase from a previous year. Company demonstrated the biggest increase in market shares in retail segment among the other asset management companies. The total net asset value of Alfa Capital’s open-ended mutual funds exceeded the RUB 14 bln mark.

Individual investment accounts

Since April 2015 Alfa Bank’s clients are able to purchase Alfa Capital’s individual investment account strategies in all Alfa Bank’s branches in Russia.

In 2015, Alfa Capital became first Asset Management Company in Russia to start the online sales of individual investment account strategies. You can open an individual investment account via Alfa Capital’s website, designed to meet and serve the clients’ needs.

Moreover, Alfa-Bank’s clients can now open Alfa Capital’s Individual investment account through «Alfa-Click». In order to do that one should find section called «Investments» and choose an individual investment account strategy that best fits their needs. This innovation allows clients to invest in the comfort of their own homes, offices, e.g. there is no need to come to our office to sign the contract.
Considering the latest government regulations, Alfa Capital designed a new interface that allows clients to do a remote self-identification through a government official website Gosuslugi.ru and thus open an individual investment account at any time that works best. This new innovative system eliminates the need to come down to our office in order to sign the documents. One can transfer money to the chosen individual investment strategy using their bankcard or the internet bank.

By the end of 2015 more than 4,100 of Alfa Capital’s individual investment accounts were opened, which is by far one of the best results on the market.

Marketing and PR campaigns

In 2015, Alfa Capital modernized the whole line of its mutual funds, which enhanced management strategies, increased the variety of offered products and greatly facilitated the likeability of the mutual funds, all of which resulted in increased investments.

One of the most important marketing and PR department achievements in 2015 was the start of online sales, where clients could open IIA through their personal accounts and the development of a mobile app with investors personal accounts, which is planned to launch in May of 2016. In 2015, the marketing and PR department launched a new website alfais.ru and an Alfa Capital Wealth mobile app, both with a large-scale PR campaigns. Moreover, we updated the Alfa Capital Wealth website (aw.alfacapital.ru) and started the development of a new Alfa Capital website (alfacapital.ru), which is expected to launch in March 2016. In 2015, the marketing and PR department organized mutual partnership events for the sales force at Alfa-Bank.

The new project «Business Breakfasts» for Alfa Capital Wealth clients was also successfully launched in 2015. The purpose of this project is to stimulate sales, increase clients’ loyalty to our company in the Russian regions and most importantly, to shape the company’s image as transparent, open and trustworthy. Fifteen «Business Breakfasts» were already successfully organized in Moscow, Saint Petersburg, Yekaterinburg, Chelyabinsk, Novosibirsk and Krasnoyarsk. More than 500 clients came to the events, and this project was largely covered by business media. Alfa Capital is an absolute leader in media coverage. We have more than 50% of information space in business press and about 50% of quantity and quality indicators.

By the end of 2015 Alfa-Capital is 70% ahead of its competitors by quantity indicators and 80% ahead by quality indicators.

Company’s diplomas and awards in 2015

• Irina Krivosheeva, General Director of Alfa Capital, led the top-20 most influential business woman in Russia ranking organized by the business magazine «Company».
• Alfa Capital Asset Management received a National Ranking Agency award for «Stable High Asset Management Quality».
• Alfa Capital won the annual NAUFOR (Russian National Association of Securities Market Participants) award «Elite of Russian Stock Market » in the category of «Best Individual Management Company for Retail Investors».
• Alfa Capital is recognized as the «Best Asset Management Company for Wealthy Private Clients» by SPEAR’S award.

Charity

• In January 2015, volunteers from Alfa Capital organized humanitarian aid for 17 teenagers from the Latkinskiy orphanage.
• In February 2015, volunteers from Alfa Capital congratulated WWII veterans on Defender of the Fatherland Day with presents and provided additional humanitarian aid to the Latkinskiy orphanage.
• In March 2015, volunteers from Alfa Capital raised funds to cover medical care for those supervised by the Galchonok charity fund.
• In April 2015, volunteers from Alfa Capital organized humanitarian aid for a senior center in Moscow and for WWII veterans.
• In June 2015, volunteers from Alfa Capital organized educational courses for the Latkinskiy orphanage.
• In December 2015, Alfa Capital Asset Management organized a New Year celebration with presents for WWII veterans and those living in the Voskresensky senior care center.
Independent Auditor’s Report

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

We have audited the accompanying consolidated financial statements of ABH Financial Limited and its subsidiaries (the “Group”) which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

4 April 2016
Moscow, Russian Federation

ABH FINANCIAL LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>In millions of US Dollars</th>
<th>31 December 2015</th>
<th>31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3 145</td>
<td>4 999</td>
</tr>
<tr>
<td>Mandatory cash balances with central banks</td>
<td>151</td>
<td>287</td>
</tr>
<tr>
<td>Trading securities</td>
<td>802</td>
<td>676</td>
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<tr>
<td>Repurchase receivables relating to trading securities</td>
<td>157</td>
<td>339</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>1 347</td>
<td>3 796</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>20 239</td>
<td>26 465</td>
</tr>
<tr>
<td>Investments</td>
<td>3 403</td>
<td>1 832</td>
</tr>
<tr>
<td>Repurchase receivables relating to investments</td>
<td>188</td>
<td>1 042</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>1 330</td>
<td>3 180</td>
</tr>
<tr>
<td>Other assets</td>
<td>267</td>
<td>413</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>441</td>
<td>537</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>31 470</td>
<td>43 566</td>
</tr>
<tr>
<td>LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other banks</td>
<td>2 084</td>
<td>8 187</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>17 748</td>
<td>20 059</td>
</tr>
<tr>
<td>Debt securities issued</td>
<td>4 029</td>
<td>5 257</td>
</tr>
<tr>
<td>Syndicated and other debt</td>
<td>242</td>
<td>276</td>
</tr>
<tr>
<td>Subordinated debt</td>
<td>1 533</td>
<td>1 813</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>907</td>
<td>3 224</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>256</td>
<td>246</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>317</td>
<td>208</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>27 126</td>
<td>39 270</td>
</tr>
<tr>
<td>EQUITY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>1 265</td>
<td>1 265</td>
</tr>
</tbody>
</table>

4 April 2016
Moscow, Russian Federation
<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value reserve for investments available for sale</td>
<td>27</td>
<td>(55)</td>
</tr>
<tr>
<td>Revaluation reserve for premises</td>
<td>71</td>
<td>73</td>
</tr>
<tr>
<td>Cumulative translation reserve</td>
<td>(1,438)</td>
<td>(868)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>4,407</td>
<td>3,868</td>
</tr>
<tr>
<td>Net assets attributable to the Company's owners</td>
<td>4,332</td>
<td>4,283</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td><strong>4,344</strong></td>
<td><strong>4,296</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td><strong>31,470</strong></td>
<td><strong>43,566</strong></td>
</tr>
</tbody>
</table>

### ABH FINANCIAL LIMITED
**SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

<table>
<thead>
<tr>
<th>In millions of US Dollars</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Interest income</td>
<td>3,189</td>
<td>4,142</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(1,868)</td>
<td>(1,916)</td>
</tr>
<tr>
<td>Expenses directly attributable to leasing and deposit insurance</td>
<td>(42)</td>
<td>(48)</td>
</tr>
<tr>
<td>Net margin</td>
<td>1,279</td>
<td>2,178</td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>(777)</td>
<td>(1,228)</td>
</tr>
<tr>
<td>Net margin after provision for loan impairment</td>
<td>502</td>
<td>950</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>805</td>
<td>1,087</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>(220)</td>
<td>(262)</td>
</tr>
<tr>
<td>Gains less losses arising from trading securities</td>
<td>9</td>
<td>(294)</td>
</tr>
<tr>
<td>Gains less losses arising from interest based derivatives</td>
<td>(5)</td>
<td>8</td>
</tr>
<tr>
<td>Gains less losses arising from foreign currencies and precious metals</td>
<td>336</td>
<td>(238)</td>
</tr>
<tr>
<td>Gains less losses arising from investments</td>
<td>1</td>
<td>(27)</td>
</tr>
<tr>
<td>Gain less losses arising from acquisition of own debts</td>
<td>(7)</td>
<td>6</td>
</tr>
</tbody>
</table>

### ABH FINANCIAL LIMITED
**SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain on bargain purchase</td>
<td>-</td>
<td>106</td>
</tr>
<tr>
<td>Other provisions</td>
<td>58</td>
<td>(165)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>59</td>
<td>27</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(971)</td>
<td>(1,186)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>567</td>
<td>12</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(87)</td>
<td>21</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>480</td>
<td>33</td>
</tr>
<tr>
<td><strong>Other comprehensive income/(loss):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Items that may be reclassified subsequently to profit or loss:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value gains less losses</td>
<td>102</td>
<td>(94)</td>
</tr>
<tr>
<td>Reclassification adjustments for (gains)/losses included in profit or loss</td>
<td>(1)</td>
<td>24</td>
</tr>
<tr>
<td>Effect of translation of the financial statements of foreign operations</td>
<td>(1,199)</td>
<td>(2,073)</td>
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<tr>
<td>Net change in hedge of net investment in foreign operations</td>
<td>787</td>
<td>2,058</td>
</tr>
<tr>
<td>Income tax recorded directly in other comprehensive income</td>
<td>(177)</td>
<td>(396)</td>
</tr>
<tr>
<td><strong>Items that will not be reclassified to profit or loss:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation of premises</td>
<td>-</td>
<td>41</td>
</tr>
<tr>
<td>Income tax recorded directly in other comprehensive income</td>
<td>-</td>
<td>(8)</td>
</tr>
<tr>
<td>Other comprehensive loss for the year</td>
<td>(448)</td>
<td>(448)</td>
</tr>
<tr>
<td><strong>Total comprehensive (loss)/income for the year</strong></td>
<td>(8)</td>
<td>(415)</td>
</tr>
<tr>
<td>Profit for the year attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Company's owners</td>
<td>486</td>
<td>33</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>(6)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive loss attributable to:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Company's owners</td>
<td>(2)</td>
<td>(415)</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>(6)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive loss for the year:</strong></td>
<td>(8)</td>
<td>(415)</td>
</tr>
</tbody>
</table>
## ABH Financial Limited

### Summary Consolidated Statement of Changes in Equity

<table>
<thead>
<tr>
<th>In millions of US Dollars</th>
<th>Share capital</th>
<th>Fair value reserve for investments available for sale</th>
<th>Revaluation reserve for premises</th>
<th>Cumulative translation reserve</th>
<th>Retained earnings</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 1 January 2014</td>
<td>1 265</td>
<td>-</td>
<td>(442)</td>
<td>3 952</td>
<td>4 818</td>
<td>-</td>
<td>4 818</td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>33</td>
<td>33</td>
<td>-</td>
<td>33</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>-</td>
<td>(55)</td>
<td>33</td>
<td>(426)</td>
<td>-</td>
<td>(448)</td>
<td>-</td>
<td>(448)</td>
</tr>
<tr>
<td>Total comprehensive loss for the year</td>
<td>-</td>
<td>(55)</td>
<td>33</td>
<td>(426)</td>
<td>33</td>
<td>(415)</td>
<td>-</td>
<td>(415)</td>
</tr>
<tr>
<td>Realised revaluation reserve</td>
<td>-</td>
<td>-</td>
<td>(3)</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(120)</td>
<td>(120)</td>
<td>-</td>
<td>(120)</td>
<td></td>
</tr>
<tr>
<td>Business combination</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Balance as at 31 December 2014</td>
<td>1 265</td>
<td>(55)</td>
<td>73</td>
<td>(868)</td>
<td>3 868</td>
<td>4 283</td>
<td>13</td>
<td>4 296</td>
</tr>
<tr>
<td>Profit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>486</td>
<td>486</td>
<td>(6)</td>
<td>480</td>
</tr>
<tr>
<td>Other comprehensive loss</td>
<td>-</td>
<td>82</td>
<td>-</td>
<td>(570)</td>
<td>-</td>
<td>(488)</td>
<td>-</td>
<td>(488)</td>
</tr>
<tr>
<td>Total comprehensive loss for the year</td>
<td>-</td>
<td>82</td>
<td>-</td>
<td>(570)</td>
<td>486</td>
<td>(2)</td>
<td>(6)</td>
<td>(8)</td>
</tr>
<tr>
<td>Realised revaluation reserve</td>
<td>-</td>
<td>-</td>
<td>(2)</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(100)</td>
<td>(100)</td>
<td>-</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>Contribution from shareholder</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>133</td>
<td>133</td>
<td>-</td>
<td>133</td>
</tr>
<tr>
<td>Acquisition of noncontrolling interests</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17</td>
<td>17</td>
<td>(17)</td>
<td>-</td>
</tr>
<tr>
<td>Disposal of noncontrolling interest</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>22</td>
<td>23</td>
</tr>
<tr>
<td>Balance as at 31 December 2015</td>
<td>1 265</td>
<td>27</td>
<td>71</td>
<td>(1 438)</td>
<td>4 407</td>
<td>4 332</td>
<td>12</td>
<td>4 344</td>
</tr>
</tbody>
</table>
### Financial Statements

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of investments available for sale</td>
<td>(1,911)</td>
<td>(1,614)</td>
</tr>
<tr>
<td>Proceeds from disposal and redemption of investments available for sale</td>
<td>1,305</td>
<td>1,357</td>
</tr>
<tr>
<td>Acquisition of investments at fair value through profit and loss</td>
<td>(2)</td>
<td>-</td>
</tr>
<tr>
<td>Disposal of investments at fair value through profit and loss</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Acquisition of investments held to maturity</td>
<td>(219)</td>
<td>(1,221)</td>
</tr>
<tr>
<td>Proceeds from redemption of investment held to maturity</td>
<td>95</td>
<td>73</td>
</tr>
<tr>
<td>Acquisition of premises, equipment and intangible assets</td>
<td>(119)</td>
<td>(154)</td>
</tr>
<tr>
<td>Proceeds from disposal of premises and equipment</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of subsidiaries, net of cash acquired</td>
<td>-</td>
<td>156</td>
</tr>
<tr>
<td>Net cash from/(used in) investing activities</td>
<td>(844)</td>
<td>(1,398)</td>
</tr>
</tbody>
</table>

| Cash flows from financing activities | | |
| Contribution from shareholder | 50 | - |
| Repayment of syndicated and other debt | (3) | (346) |
| Interest paid on syndicated and other debt | (5) | (13) |
| Proceeds from debt securities issued | 1,113 | 2,253 |
| Repayment of debt securities issued | (1,918) | (2,281) |
| Interest paid on debt securities in issue | (356) | (422) |
| Repayment of subordinated debt | (146) | (48) |
| Proceeds from subordinated debt | - | 248 |
| Interest paid on subordinated debt | (130) | (145) |
| Dividends paid | (100) | (99) |
| Net cash from financing activities | (1,495) | (853) |
| Net increase in cash and cash equivalents | (1,488) | 37 |
| Cash and cash equivalents at the beginning of the year | 4,999 | 5,925 |
| Effect of exchange rate changes on cash and cash equivalents | (366) | (963) |
| Cash and cash equivalents at the end of the year | 3,145 | 4,999 |

### Corporate Directory

**CBRF General Banking License No.1326 dated 15 January 2015**

**Head Office**
27, Kalanchevskaya St.,
Moscow 107078
Phone: +7 495 620 91 91
+7 495 974 25 15
Telex: 412089 ALFARU
S.W.I.F.T.: ALFA RU MM
E-mail: mail@alfabank.ru
www.alfabank.com
www.alfabank.ru

**International and Trade Finance**
Executive Officer
Dmitry Minaev
Phone: +7 495 792 58 46
Fax: +7 495 792 58 43
E-mail: mail@alfabank.ru

**Research**
Director
Andrei Nikitin
Phone: +7 495 795 37 42
Fax: +7 495 788 69 81
E-mail: mail@alfabank.ru

**Equities**
Managing Director
Michael Pijiolis
Phone: +7 495 795 37 12
Fax: +7 495 745 78 97
E-mail: mpijiolis@alfabank.ru

**Retail Business and Consumer Finance**
Head of Retail Business and Consumer Finance
Mikhail Povaly
Phone: +7 495 795 36 45
Fax: mail@alfabank.ru

**Corporate and Investment Banking**
Co-Head of Corporate and Investment Banking
Simon Vine
Phone: +7 495 745 78 96
Fax: +7 495 795 37 21

Co-Head of Corporate and Investment Banking
Maxim Pershin
Phone: +7 495 974 20 72
Fax: +7 (495) 786 48 95
E-mail: mail@alfabank.ru

**Media and Public Relations**
Director
Leonid Ignat
Phone: +7 495 788 69 79
Fax: +7 495 788 69 81
E-mail: mail@alfabank.ru
Alfa-Bank Ukraine
Chief Executive Officer
Rushan Khvesyuk
4/6, Desyatinnaya St.,
Kiev 01025
Ukraine
Phone: + 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
Salisbury House
London Wall
London
EC2M 5QQ
United Kingdom
Tel. +44 (0) 20 7588 8400
Fax + 44 (0) 20 7382 4170
E-mail: info@alfa-cm.com

Amsterdam Trade Bank N.V.
Chairman of Executive Board
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 219
info@atbank.nl
www.atbank.nl

Alfoma Capital Markets Inc.
President
David Denson
1270 Avenue of the Americas,
Suite 1805, New York
NY 10020
United States
Tel.: +1 212 421 75 00
Fax: +1 212 421 86 33
E-mail: ddenson@alfa-usa.com