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**annual
report**

**Годовой
отчет**

2019

IN 2020, ALFA-BANK
WILL CELEBRATE ITS
30th ANNIVERSARY.
OUR SUCCESS AND
LONGSTANDING
LEADERSHIP ARE
DRIVEN BY OUR
STRONG FOCUS ON
BUSINESS GOALS.

The Annual Report was approved by the Annual Shareholders General Meeting
of AO ALFA-BANK (Minutes No. 2-2020 of 30 July 2020)

Chairman of the Executive Board of AO ALFA-BANK



Andrei Sokolov

Alfa-Bank Annual Report 2019

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Alfa-Bank 2019

26,359

• Employees

825

• Offices

5.7
million

• Active retail customers

543,000

• Active corporate customers

* According to the IFRS consolidated financial statements of ABH Financial Limited

\$8.14
billion

Equity*

\$704
billion

Net profit*

\$39.48
million

Loan portfolio*

\$59.47
billion

Assets*

Alfa-Bank's awards and ratings in 2019

Awards

Jan 2019

Alfa-Bank was named the best Russian trade finance provider according to *Global Finance* (Best Trade Finance Providers 2019 reward).

Alfa-Bank reaffirmed its leadership on the factoring market and was one of the top three Russian market leaders according to the Expert RA Association of Factoring Companies and Agencies. At the end of 2018, the receivables assigned to the Bank increased by 53% to RUB 335bn, with financing provided to more than 500 customers, a 1.5-fold increase from 2017.

Feb 2019

At the Alfa Future People-2018 festival, Alfa-Bank's marketing project won the Best Experience Marketing Award for Best Ambient Activation and Best Sponsor Integration.

Alfa-Bank was the winner in the Breakthrough of the Year (Premier Mortgage League) and Mortgage Loan of the Year categories (Banki.ru).

Alfa-Bank won the Digital Communications AWARDS in the Mobile Application category. The Organising Committee highly appreciated the Alfa-Bank's Air mobile application, which provides the Bank's employees with access to corporate network services.

Mar 2019

Alfa-Bank was the winner in three categories of the Finaward organised by *Bankovskoe Obozrenie* (Bank Review) and the leader in the Introduction in Customer Relations category for the Real-Time Customer Emotions Analytics project and in Introduction in Information Security. In addition, Alfa-Bank ranked second in the Blockchain Pilot category for the KYC Blockchain System project.

Alfa-Bank's Call Centre won Crystal Earphone in several categories.

Alfa-Bank's sponsor integration was declared Event of the Year at the Alfa Future People-2018 in the Best Implementation of Event Strategy to Build a Brand Image category.

May 2019

Alfa-Bank received the Annual BEST.RU Business Award in the Bank of the Year category.

Jun 2019

The Alfa Travel Premium card was named the top debit card for travellers, according to Vyberu.ru.

Alfa-Bank topped the 2019 Frank Premium Banking Award ranking of banks for premium customers.

Alfa-Bank was awarded *Global Finance's* 2019 Innovators award in the Payments category for large business blockchain projects launched in 2018 and early 2019.

According to Marksw Webb Rank & Report 2019, the mobile bank for Alfa Business Mobile corporate customers was recognised as one of the Russian leaders for iOS and Android platforms.

The reputable British business journal *Euromoney* awarded Alfa-Bank the CEE's 2019 Best Bank for SMEs Award for its introduction of innovative settlement and credit services for SMEs in 2018-2019, a significant increase in the amount of lending and customer numbers, and the efficacy of the Bank's SME business model.

According to the results of the first six months of 2019, Alfa-Bank was ranked first by the Association of Factoring Companies in Moscow Region, with the Bank's factoring portfolio nearing RUB 46.5bn. Alfa-Bank's customer base increased to 179 companies, and the Russia-wide portfolio amounted to RUB 62bn.

Jul 2019

Alfa Business Mobile ranked second in Marksw Webb's ranking of mobile banks for senior managers.

Aug 2019

Alfa-Bank was the first private bank to top the annual *Forbes* ranking for private banking services.

Alfa-Bank was awarded by Visa Global Service Quality Award in the Lowest Gross Fraud category. Visa emphasised the record low level of credit card fraud reported by Alfa-Bank among world banks in 2018.

According to the *Global Banking and Finance Review Awards*, Alfa-Bank was the best bank in Russia providing private banking services (Best Private Bank Russia 2019).

Alfa-Bank was named the best mortgage bank in Central and Eastern Europe (*Global Finance's Best Consumer Digital Bank Awards*).

Sept 2019

According to a Reputation Institute (RI) study initiated by *Forbes*, Alfa-Bank was one of three leading Russian banks with Best Bank standing. Alfa-Bank holds a unique position on the financial market and enjoys the trust of Russian citizens on par with the largest state-owned banks.

Oct 2019

The Alfa-Mobile application headed the accessibility ranking of bank mobile applications for disabled customers. The ranking was based on USABILITYLAB's research.

Alfa-Bank was awarded the prestigious 2019 Loans Cbonds Awards as the Best Russian Bank in the CIS Syndication Market category.

Alfa-Bank was awarded the 2019 Frank Banking Reward Award for the best line of reward credit cards. The Bank's card products are simple and user friendly. The Bank's customers may simultaneously receive up to 7% on their current account balance, up to 3% cashback for all purchases, up to 10% cashback for certain categories of purchases, and up to 11% in miles.

Nov 2019

The reputable British magazine *The Banker* named Alfa-Bank as the Bank of the Year in Russia 2019 for its impressive growth, successful implementation of strategic initiatives and technological leadership. Experts highly appreciated Alfa-Bank's achievements in business digitalisation, modernisation of the Alfa-Mobile application and introduction of innovative products and services, such as instant card issue (Digital Delivery), family accounts with the possibility of connecting up to four close relatives, digital services for mortgage borrowers, corporate customer payment confirmation by fingerprint, virtual cards for SME customers and a number of other innovations. According to *The Banker*, the success of the Alfa-Bank's strategy is confirmed by the stable growth of all its financial indicators.

Dec 2019

Markswebb named the Alfa Mobile application the best mobile application among Russian banks in the Digital Office category. The leading bank in the mobile banks rating changed for the first time in five years.

Alfa-Bank was awarded Cbonds Awards as the Best Investment Bank for Working with Tier II-III Borrowers and as the Best Organiser of High-Yield Transactions. Recognition by the professional community once again highlights the level of expertise among the Alfa-Bank team.

Alfa-Bank was awarded the prestigious Best Retail Bank award by the Retail Finance Awards. In addition, the Bank won the award for Creativity of the Year, while Alfa-Bank's mortgage business won the special Dream Team award.

Alfa-Bank reaffirmed its status as the leading corporate bank in Russia by winning SPEAR's prestigious 2019 Russia Wealth Management Awards. Vladimir Verkhoshinskiy, Alfa-Bank's Chief Executive Officer, received the Banker of the Year award.

According to Finalta research, Alfa-Bank has the world's highest (among universal banks) percentage of active online customers (about 80%).

Credit ratings

Feb 2019

Moody's Investors Service upgraded the long-term rating of Alfa-Bank foreign currency deposits from Ba2 to Ba1 with a stable outlook and the long-term rating of counterparty risk from Ba1 to Baa3.

Apr 2019

S&P Global Ratings upgraded the rating of Alfa-Bank's own credit solvency from BB to BB+, and Alfa-the Bank's long-term and short-term credit ratings of BB+/B were confirmed with a stable outlook.

Oct 2019

Fitch Ratings confirmed Alfa-Bank's long-term foreign and national currency default ratings of BB+ and changed the outlook from stable to positive.

Nov 2019

AKPA upgraded Alfa-Bank's credit rating to AA+(RU) with a stable outlook.

ALFA-BANK IS THE
MOST DIGITAL AMONG
LEADING BANKS.

ABOUT 80%
OF OUR ACTIVE
RETAIL CUSTOMERS
REGULARLY USE OUR
MOBILE APPLICATION.

Report of the Board of Directors on Alfa-Bank's development in priority business areas

As we present the 2019 Annual Report of Alfa-Bank, we are proud to announce that the Bank has reaffirmed its position as a major Russian private credit institution and continued to narrow the gap in competition with state-run banks.

The Bank's capital increased by about USD 1bn to USD 8.1bn, while total comprehensive income increased more than 1.5-fold. Total assets and the loan portfolio increased, as did interest, fee and commission income. Alfa-Bank won a record number of awards, while international rating agencies confirmed its high credit ratings.

The number of active retail customers increased by roughly one million to 5.7 million, while the number of active SME customers reached 538,000, creating a stable basis for our long-term profitability. We rank third in lending markets and in attracting retail customer accounts, and we have made much headway in the mortgage market. As of December 2019, Alfa-Bank ranked third in home mortgage loans. Our share of the credit card market has grown to more than 10%.

Alfa-Bank is the most digital among the major players: about 80% of our active retail customers regularly use our mobile application. In 2019, the Bank launched a personal account service for mortgage borrowers, radically reducing mortgage approval time.

We also offered a conceptually new liquidity management solution for corporate customers based on blockchain technology, launched a number of digital services in retail and small business segments, and made significant investments in IT infrastructure. Alfa-Bank was one of the first to join the Russian Central Bank's instant payment system (IPS) and became one of the three leaders in IPS turnover.

In 2020, Alfa-Bank will celebrate its 30th anniversary. Our success and longstanding leadership are driven by our strong focus on business goals. Today, Alfa-Bank is in very good shape thanks to the many years of hard work, successful strategy implementation and risk assessment, managerial responsibility for business results, and a flexible and fast decision-making process. We have no doubt that Alfa-Bank is well placed to maintain stability and profitability in the coming years, and to considerably enlarge our customer base by continuously asserting our technological leadership, being at the cutting edge of competition and moving the banking market forward.

Board of Directors



PETR AVEN
Chairman of the Board of Directors



OLEG SYSUEV
First Deputy of the Board of Directors,
President



ANDREW BAXTER
Member of the Board of Directors



VLADIMIR VERKHOSHINSKIY
Member of the Board of
Directors, Chief Executive Officer,
First Deputy Chairman of the Executive
Board, Member of the Executive Board



ANDREI KOSOGOV
Member of the Board of Directors



ARTEM LEONTEV
Member of the Board of Directors



ALEXEY MAREY
Member of the Board of Directors



MIKHAIL FRIDMAN
Member of the Board of Directors



OSKAR HARTMANN
Member of the Board of Directors

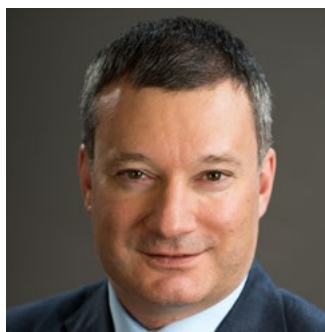
Executive Board



ANDREY SOKOLOV
Chairman of the Executive Board



VLADIMIR VERKHOSHINSKIY
Member of the Board of
Directors, Chief Executive Officer,
First Deputy Chairman of the Executive
Board, Member of the Executive Board



MIKHAIL GRISHIN
Deputy Chairman of the Executive Board,
Legal Affairs and Distressed Asset
Management Director, Member of the
Executive Board



VLADIMIR VOEYKOV
Member of the Executive Board,
Medium Business Director



DENIS OSIN
Member of the Executive Board,
Small and Microbusiness Director



SERGEI POLIAKOFF
Member of the Executive Board,
Chief Information Officer



IVAN PYATKOV
Member of the Executive Board,
Digital Business Director



MICHAEL TUCH
Deputy Chairman of the Executive Board,
Retail Business Director,
Member of the Executive Board



ANDREW CHULACK
Deputy Chairman of the Executive Board,
Corporate and Investment Bank Director



ALEXEI TCHOUKHOV
Deputy Chairman of the Executive Board,
Chief Financial Officer, Member of the
Executive Board

Review of the Russian banking sector in 2019

In 2019, the retail lending market (which continued to grow rapidly) was the main business segment in the banking sector. Over the last year, loan portfolios in the lending market increased by 18.5% YOY, comparable to the 22.4% YOY growth achieved in 2018. The nominal household debt burden in 2019 increased by RUB 2.7 trillion, similar to the previous year. Last year, the Russian retail lending market reached 16% of GDP, surpassing small East European countries such as Hungary and Romania (with 14-15% of GDP), but still smaller than the larger markets in Poland and the Czech Republic, where loans granted to the population amount up to 30% of GDP. In 2019, in the context of Russia's continued maternity capital programme (i.e. resources that may be used to pay the initial instalment for home purchases), the mortgage lending market increased by 17% YOY to 7% of GDP, exceeding the mortgage loan portfolio of Russian banks in 2014 by two times, while the non-mortgage segment increased by 20% YOY.

Given the positive trends in retail lending, slowing growth rates in the corporate lending segment in 2019 came as an unpleasant surprise. Last year, the corporate loan portfolio of Russian banks increased by a mere 1.2% YOY. In 2019, Russian companies continued to lower their debt burden, having repaid foreign currency loans totalling USD 20bn to Russian banks (in 2018, the figure was USD 16bn). Corporate foreign currency loans accounted for 12% of gross credits in Russian banks (or USD 65bn in nominal terms), though peak values in January 2016 were 37% of loans or USD 166bn. The growth of RUB corporate loans provided by Russian banks declined from an average of 13% YOY in 2018 to 8% YOY by December 2019. In 2019, corporate loans issued by Russian banks dropped to 31% of GDP, the lowest value since 2013. In 2019, gross corporate debt, inclusive of liabilities to non-residents, fell to 50% of GDP vs. 55% of GDP in 2017.

Continued wage increases and the recovery of real disposable income in 2019 had a positive effect on the retail deposit market in 2019, leading to 7.3% YOY growth. RUB retail deposits increased by 9.9% YOY vs. 8.3% YOY in the previous year, but the key factor behind the strong figures for 2019 was the increase in foreign currency deposits, from USD 88bn in December 2018 to USD 97bn in December 2019. This trend reflects the return of deposits closed at the end of 2018 in response to the threat of additional sanctions. The retail saving structure reflects the persistence among upper-middle-income population groups to hold their savings in foreign currency. In 2019, about 43% of retail deposits amounted to more than RUB 1.4m (USD 22,000) guaranteed under the deposit insurance system.

The high share of retail foreign currency deposits indicates that a structural problem has occurred in the Russian banking sector in recent years. The share of RUB loans in the asset profile of the banking sector has increased and their terms have been extended, all due to fears of sanctions, exchange rate volatility and lower interest rates. These changes in the asset profile differ from the structure of bank liabilities, where foreign currency is still preferable. With regard to foreign currency deposits, in addition to USD 97bn in personal savings, about USD 146bn are held by Russian companies on their accounts. However, the foreign currency corporate loan portfolio of Russian banks dropped from a high of USD 165bn in 2015 to about USD 65bn by the end of the

last year. As a result, retail and corporate foreign currency loans now amount to a mere 29% of retail and corporate foreign currency accounts (compared with 86% in 2008 and an average of 70% from 2009 to 2011). This assets-to-liabilities ratio indicates that the foreign currency funding surplus is putting profitability in the banking sector under pressure.

In addition to the increased imbalance in attracting and depositing foreign currency, banks also face a growing gap in asset and liability maturities in key banking markets. Traditionally, the retail segment has been a key source of banking sector funding. However, from 2018, people began to increase their borrowings at a pace that outstripped the rate of growth in retail deposits. In 2019, retail loans grew by RUB 600bn that exceeded the retail deposits growth. Simultaneously, retail deposit maturity has dropped considerably. Retail current accounts increased to RUB 8 trillion at the end of 2019 and now account for 26% of gross retail funding of Russian banks, the highest rate since 2010. Today, retail deposits with a maturity of less than a year account for 60% of gross retail funding (compared with 40% from 2010 to 2012) and cover about 38% of the total loan portfolio of the banking sector (compared with 17% in 2009).

At the end of 2019, Russia had 402 operating banks. State-run banks were the main beneficiaries of the sector consolidation that took place in previous years. State-run banks now hold a remarkable 73% share of the corporate lending segment, a less significant but still tangible 66% of the retail and corporate attraction markets, and about 63% of the retail lending segment. The reverse side of the strengthening of state-run banks has been the reduced presence of foreign banks in the Russian banking market. From a peak of 252 banks with foreign participation operating in Russia in 2013, only 137 remain. The strengthening of state-run banks in the context of slow economic growth indicates that there is growing competition for good clients and that challenging banking conditions are present in Russia.

WE REVIEWED AND
DRAMATICALLY CUT
A NUMBER OF THE
BANK'S IT, DIGITAL
AND BUSINESS
PROJECTS.

IMPORTANT
PROJECTS WERE
SCALED UP AND
RESOURCES
REECHANELLING
TO CRUCIAL AREAS.

Address of the Chief Executive Officer

I am proud to present our results for 2019. We have coped with a challenging market environment by working as a well-coordinated team and implementing new technology. We showed excellent results for net profit and ROE, and significantly increased our loan portfolio, simultaneously improving the Bank's efficiency and reducing the cost to income ratio (CIR).

It truly was a remarkable year. However, I would also like to draw your attention to the fundamental work behind our financial indicators. In 2019, the Board of Directors approved a new strategy. We focused on three key initiatives—best mobile bank, first paperless bank and next generation network—and set a goal to become leaders in each area.

We had a year of solid achievements. Alfa-Bank's mobile application was named the best by Markswebb. According to Finalta, we have the world highest (among universal banks) share of clients active in digital channels at about 80%. Our clients appreciate the recent changes, as evidenced not only by their positive feedback, but also by the fact that we attracted more than one million new individual clients over the year.

Today, it is obvious that we have made the right strategic choices, even more so given the new market environment. No doubt, digitisation will become a global trend, impacting all sectors and areas of life. The banks that started to invest in digital infrastructure years ago will come out on top. Alfa-Bank's competitive advantage rests upon technological leadership combined with reliability.

As for "under the hood" processes unseen by clients, I would like to touch upon two reforms launched in 2019. The first was technological. We reviewed and drastically cut a number of IT, digital and business projects. Important projects were scaled up while non-priority ones abandoned, thus rechanneling resources to crucial areas.

The goal of each project is to provide superior customer experience. This year, we introduced an innovative service that allows our clients to assess the Bank's work (as is done in taxi services). At the same time, we fundamentally revised our incentive and remuneration system, directly linking it to client feedback.

The second reform was managerial. We introduced an advanced matrix structure, built a strong and effective team, and expanded the authority of regional managers, thus strengthening another important advantage of Alfa-Bank—flexible and fast decision-making.

I am impressed by the record number of awards (30 in total) that Alfa-Bank won in 2019, including leading international awards from *The Banker* (Bank of the Year), *Global Finance* (Best Mortgage Bank), *Forbes* (Best Private Banking in Russia) and *Euromoney* (Best Bank for SMEs). This recognition confirms that we are on the right path.

The year that we are entering is not likely to be simple for the Russian economy. For a strong financial institution like Alfa-Bank, however, it will surely open new opportunities. I am confident that in 2020 we will be able to further enhance our long-term relations with our customers, justifying their everyday trust and helping Alfa-Bank to become more successful, stable and digital.

New strategy

In 2019, the Board of Directors approved Alfa-Bank's strategic plan for 2019-2021.

Our key goal is to implement a technological transformation in order to offer better services to our clients, secure our competitive advantage in the changing banking market and lay a foundation for increasing the Bank's profitability and market share. To be prepared for ongoing changes in the banking sector, we should continuously be at the cutting edge of technology and the customer experience.

Alfa-Bank's new strategy is strongly focused on concentrated growth. We set only three goals, but they represent our ambition to be the best bank in Russia.

Alfa-Bank will create the best mobile application in Russia. Our mobile bank will become a contact centre for retaining clients and entrepreneurs and will provide a broad range of the Bank's products and services, including those currently available only at branches. However, Alfa-Bank is not focused on a "mobile only" ideology. Instead, we will develop all customer channels applying a "mobile first" principle (priority development of mobile bank products).

By 2021, Alfa-Bank will become the first paperless universal bank in Russia, ending the use of paper documents in branches and back offices wherever it is not required by legislation or our clients. Over the next three years, the Bank will transform its branches into a next generation network that will give our clients a breakthrough experience. Digitalisation will provide our clients with a whole range of banking and investment products via only their smartphones.

Alfa-Bank's target model is phygital (physical + digital), combining digital innovation with an efficient branch network. Clients will encounter a minimum of red tape and easily be able to resolve routine matters via their smartphones while simultaneously communicating with Bank employees in real time—this is what a next generation bank looks like. Combining the best digital and best physical experience will give Alfa-Bank a leading edge.

Our strategy also addresses an important question: "What paths will the Bank *not* take?" We do not intend to build an ecosystem of non-banking businesses, as some of our competitors are doing. We are a bank, and first and foremost, we want to focus on what we do best of all: provide top quality finance products and services. However, this does not mean that we will altogether abandon non-banking services. We have been developing and will continue to develop them, but as part of strategic partnerships with other market players, including non-banks.

Strategy implementation

In less than a year, the Bank has achieved impressive results in implementing its strategic initiatives.

Best mobile bank

Our mobile application has been fundamentally redesigned. We have expanded the functionality based on best practices in the market and have made the application more user friendly.

Today, our clients can perform all sorts of routine operations in Alfa-Mobile, including opening an account or deposit, issuing a card, linking it to any account and using it at once, making free transfers via the instant payment system or obtaining an online loan or insurance policy.

Evidence of success:

- Higher ratings in app stores (4.9 in the AppStore and 4.8 in Google Play): our customers have noticed and appreciated the changes.
- A record increase in the share of regular mobile bank users to more than 80% of active retail customers, the best indicator for universal banks in Russia.
- External independent appraisal: the Alfa-Bank mobile app was named best in Russia by Markswebb.

First paperless bank

The Alfa-Bank team conducted a thorough review of the Bank's customer service processes. Gradually, the Bank has shifted these services towards digital whenever it is not required by law or the client to use paper documents.

Even now, about 60% of cash loan transactions are paperless. The Bank has decided on and started to introduce principal biometry technology, and, in the longer term, will implement even more sophisticated technology. The purpose is to provide clients with convenience and a minimum of red tape.

Next generation network

The next-generation network concept, an illustrative example of our new phygital reality, was developed in detail in the first year.

Before visiting a branch, clients may choose the service they need in the mobile app. When they arrive, they will be welcomed by an employee with a tablet containing the necessary information to provide the service. Clients will not need to take an electronic queue slip and Bank employees will greet them by their name. Unseen by clients, sophisticated and fairly expensive artificial intelligence technology will work "under the hood" to ensure the provision of simpler services, convenience and a positive experience.

New technology will help Alfa-Bank to place its employees where it is most convenient for our clients (some will move around the office with tablets). Transactions may be biometrically confirmed, without the need to provide identification documents. The number of cash departments will also be reduced and replaced by smart ATMs that are faster and more convenient than either standard ATMs or tellers.

The Bank has developed and introduced a number of technologies to support the next generation concept, such as VOC. After visiting one of our branches, our clients already receive push notifications enabling them to rate the level of service from 1 to 5 stars (as for taxis and other services). If the score is low, specialists will call the client, resolve the problem and improve communication in future interactions.

The first branches in the new format will open this year. One of the Bank's key priorities is omni-channel. Alfa-Bank provides services to its clients where it is convenient for them. Regardless of where the service is provided (office, call centre, mobile or Internet bank, ATM or website), the client's convenience and comfort should always come first.

Clients may easily move from channel to channel and Alfa-Bank will always be where it is most convenient for the client. For instance, a client may file a loan application on the site, receive approval on the phone, visit a branch, clear up certain issues (such as terms of insurance, payment schedule, etc.) in a face-to-face communication with the Bank employee, finalise the loan formalisation by digital signature and then rate Alfa-Bank's work in the mobile app. Our aim is to be available for our clients 24/7, becoming part of their everyday life and making it better and easier.

Another important achievement in 2019 was the Bank's large-scale transition towards the "customer path". Last year, we redesigned all product development and strategic initiatives based on the customer path concept. Our compact 50-member teams, representing all Bank functions, worked together to improve the customer experience. The teams have their own budgets and decision-making authority, that provides freedom of action and opportunities to be creative, but under the oversight of an experienced supervisor.

Full-year financial results

In 2019, Alfa Banking Group again demonstrated strong financial results, confirming the sustainability of its business model. Total comprehensive income increased more than 1.5-fold. Key profit components (net interest income, net fee and commission income) showed sustainable growth, reflecting record customer growth and business development in key market segments together with efficient risk control. Equity increased by about USD 1bn to reach USD 8.1bn.

As we increased the Bank's market share in 2019, we focused on the most marginal banking market segments and considerably strengthened our positions in retail lending and small business services, which are the foundation of Alfa-Bank's long-term profitability. Thanks to explosive growth in mortgage lending, the Bank has considerably expanded the core of its sustainable customer base, which will promote further retail business growth in the medium term.

Our priority continues to be managing our funding costs in response to the steady inflow of customer accounts, including on current accounts. Large-scale implementation of digital technology in our front- and back-office operations is also facilitating the efficient management of operating expenses and consistent cost-to-income reduction, nearing closer to minimum market indicators.

2019 Key financial highlights:

- Total comprehensive income (including net profit and other comprehensive income) increased more than 1.5-fold to USD 1.03bn (vs. USD 697m in 2018).
- Net interest income was more than USD 2.2bn, a 15.5% increase in RUB equivalent.
- Net fee and commission income increased by 10.2% in RUB equivalent to USD 1.04bn. The share of net fee and commission income in operating income before provisioning increased to 35.1%, and coverage of the Bank's operating expenses reached 79.2%.
- Alfa Banking Group's equity increased to USD 8.1bn from 7.2bn in 2018.
- About 1 million new individual customers and 96,000 SME customers were attracted.
- The loan portfolio increased by 30.3% to USD 39.8bn (19.8% unadjusted for revaluation). The retail segment increased by 71.9% to USD 10.4bn (53.1% in RUB equivalent).
- CIR including other comprehensive income was 41.9%, a steady downward trend from 45.3% in 2018.

Review of financial and operating results:

In 2019, net interest income increased to USD 2.25bn, an 11.9% upturn in USD equivalent or 15.5% in RUB equivalent. The net interest margin (NIM) was 4.6%.

Due to continued growth in the customer base, net fee and commission income grew by 6.7% vs. the previous year to USD 1.04bn (10.2% in RUB equivalent). As at the end of 2019, the share of net fee and commission income in operating income before provisioning was 35.1%, and coverage by net fee and commission income of the Bank's operating expenses reached 79.2%.

As at 31 December 2019, Alfa Banking Group's total assets increased by 26% compared with the previous year to USD 59.47bn (asset growth unadjusted for foreign currency revaluation was 17%).

The loan portfolio before provisioning grew by 30.3% to USD 39.8bn vs. USD 30.6bn at the end of 2018 (a 19.8% increase unadjusted for foreign currency revaluation). The corporate loan portfolio grew by 20.0% to USD 29.4bn (a 11.5% increase unadjusted for foreign currency revaluation). The retail loan portfolio went up by 71.9% to USD 10.4bn (a 53.1% increase unadjusted for foreign currency revaluation).

The quality of the loan portfolio remains high. As at 31 December 2019, overdue loans (90+ days) accounted for only 1.4% of the total. Provision coverage of overdue loans is conservatively high (215.3% at the end of 2019). The share of IFRS 9 Stage 3 loans was 4.1%. The provisioning ratio was 3%.

As at 31 December 2019, Alfa Banking Group's liabilities increased by 28.3% to USD 51.3bn (18.4% growth unadjusted for foreign currency revaluation). Customer accounts increased by 29% to USD 41.4bn (18.7% growth unadjusted for foreign currency revaluation). Current accounts increased by 35% and their share in customer accounts stood at 53%. The average market share of retail demand deposits was 10%, evidence of the high degree of customer confidence in the Banking Group as one of the largest financial institutions in Russia.

In July 2019, Alfa-Bank completed the issue of RUB-subordinated irredeemable bonds, which helped us support further business growth and additionally strengthen equity positions. The value of the flotation was RUB 5bn. In October-November 2019, Alfa Bond Issuance floated subordinated Eurobonds worth a total of USD 850m for the Bank. Basel III capital indicators are at a high standard. As at the end of 2019, total capital and tier 1 capital adequacy ratios were 16.3% and 18.3%, respectively, that provides stability and sustainability for the Banking Group.

Fully-year results by businesses

The Alfa-Bank team achieved profitability and efficiency in all business lines.

Retail business

In 2019, our retail business showed record results, with profits increasing by 23% to RUB 24bn and a considerable CIR reduction from 49.3% to 43.7%. More than 42% of branch service operations were successfully transferred to online channels, with a 60% increase in sales per employee. According to TNS, as a result of the digital transformation of customer paths in 2019, five out of six key products are first and second in terms of customer satisfaction in the Russian market.

The retail loan portfolio increased by 53.2% to RUB 646.4bn. The Bank is consistently the third in the Russian retail lending market with the market share of 3.77% (vs. 3.05% in 2018). In the credit card segment, the Bank is comfortably in third place with a market share of 10.88%. The number of active individual customers increased by 21% to 5.7m. In 2019, debit card sales doubled, giving a powerful push to transaction business growth.

The Bank's achievements on the mortgage market deserve special mention. This is a priority business line and strengthening it will facilitate the creation of a stable base of Alfa-Bank profitability in the longer term. Having started two years ago, Alfa-Bank made an impressive breakthrough in mortgage lending. By the end of December 2019, Alfa-Bank was third in terms of issued mortgage loans with a market share 4.72%. In 2019, the Bank opened 15 mortgage centres in 13 Russian cities.

In 2019, Alfa-Bank's mortgage portfolio tripled. As at 31 December 2019 it was RUB 112bn due to the Bank's flexible competitive rates and leading position in mortgage digitisation. Personal accounts for mortgage borrowers (a service launched and developed on the Bank's website) enable customers to go through all mortgage approval steps online (the only visit to the branch is to complete the transaction). Prepayment requests, statements and certificates are immediately generated in the mobile application. The mortgage portfolio is also supported by the record growth of Alfa-Bank's retail base (one million new customers in 2019).

One of Alfa-Bank's profitability factors is the steady increase of customer accounts (11.7% growth in RUB equivalent to RUB 1.3 trillion, an excellent result given a poorly growing market). Current accounts increased by 16.5% in RUB equivalent, with a 63% share in customer accounts.

In 2019, in cooperation with Yandex and MasterCard, the Bank issued a Yandex.Plus card with cashback of up to 10% for Yandex services (a total of 15 services, including Taxi, Eda, Drive and Afisha), and free subscription to Yandex.Plus subject to spending RUB 5,000 or more per month. The card and service are free, with 6% per annum on the balance. The new card may be issued in the form of a credit card.

The Bank's investment business has also considerably expanded. During the last two years, the increase in the number of retail investors has considerably accelerated. According to the Moscow Exchange, the number of opened broker's accounts and active customers has doubled.

Offers to participate in the primary distribution of bonds are very popular with individual investors. In 2020, we are planning to fully automate this product, making the investment process maximally simple and smooth, which will help lower the participation threshold to the minimum amounts of RUB/USD/EUR 1,000. In line with Alfa-Bank's phygital strategy, the project will involve the Bank's mobile application and branches.

The Bank's retail business won multiple awards during the year.

- In February 2019, Alfa-Bank was the winner in the Breakthrough of the Year category (Premier Mortgage League) and Mortgage Loan of the Year category (banki.ru).
- In June 2019, the Alfa Travel Premium card was named the top debit card for travellers, according to Vyberu.ru.
- In August 2019, Alfa-Bank was named the best mortgage bank in Central and Eastern Europe (Global Finance's Best Consumer Digital Bank Awards).
- In October 2019, Alfa-Bank was awarded the 2019 Frank Banking Reward Award for the best line of reward cards.
- In December 2019, Alfa-Bank was awarded the prestigious Best Retail Bank Award by the Retail Finance Awards.

A-Club

Alina Nazarova is the new head of Alfa Private business, with a new growth strategy aimed at boosting the investment element of retail customer service and enhancing efficiency developed under her leadership.

As at the end of 2019, the investment portfolio increased by 34%, and the number of customers with assets under management above USD 1 million increased by 36%. The private banking service of Alfa-Bank that works with high net worth customers and their families regained its historical name, A-Club, and, as part of rebranding, will head a new trend in social private banking.

The Bank views the strengthening of the A-Club's position as a family services leader as a priority. For the Bank, it is important not only to understand the client's needs, but also to create a family capital service generally, including with high-tech and innovative solutions. In 2019, the share of customers using distant services reached 85%. A-Club offices are located in 13 Russian cities.

In 2019, A-Club was number one in the *Forbes* rating of best Russian banks for affluent customers. In the last three years, Alfa-Bank improved its position, moving from fourth place in 2016 to third place in 2017 and second place in 2018.

In addition, A-Club won the 2019 Frank Private Banking Award in the Best Daily Banking on the Private Banking Market in Russia category, while Euromoney named A-Club the absolute leader in the Super Affluent Customers (USD 1 million to USD 5 million), Family Office Services and Research and Asset Allocation Advice categories.

Large corporate and investment business

Traditionally, Alfa-Bank has had a strong standing in corporate lending, and the Bank continues to improve its performance in this segment. In 2019, the corporate loan portfolio increased by 20% to USD 29.4bn, while the Banks share of the corporate lending market increased to 4.2%.

Alfa-Bank's portfolio is one of the highest quality in the market and well diversified across sectors. We are working with top names in the Russian economy to ensure the loan portfolio's high quality.

Alfa Bank's strong capital positions, flexibility, speed, client focus and sectoral expertise have enabled the Bank to beat out state-run banks in the competition for major borrowers, including leaders in various economic sectors. In December 2019, Alfa-Bank confirmed its status as a leading corporate bank in Russia by winning SPEAR's prestigious 2019 Russia Wealth Management Awards.

Alfa-Bank also offers corporate customers a full line of settlement products, including factoring, trade finance and foreign trade services.

By the end of 2019, Alfa-Bank increased the factoring portfolio by 70% to RUB 108.2bn (gross Russian market portfolio of RUB 806.7bn (+32% YOY), according to the Association of Factoring Companies (AFC)). Alfa-Bank is one of the three leading banks in this area, with more than double figure mid-market growth rates.

In 2019, Alfa-Bank's quality product line helped the Bank to increase its client base by attracting companies that had not used instruments for receivables or payables management before. Factoring is increasingly becoming an anchor product for corporate customers to acquaint themselves with Alfa-Bank, as our solutions are unique in terms of quality and speed and may be flexibly adapted to particular business needs.

In addition, Global Finance named Alfa-Bank as the best Russian international trade finance provider (2019 Best Trade Finance Providers).

Traditionally, the Investment Bank offers a wide range of services for all types of clients, including retail, corporate and institutional investors. Alfa-Bank provides investment consultations and arranges M&A transactions, public offerings on the debt market, syndicated lending, REPO transactions, and risk hedging using various instruments, including complex structured ones.

Alfa-Bank is well known in Russia and among major world banks as a leading player in the Forex market. A repeat winner in the Best Desk in the Russian Federation, Alfa-Bank is the largest in terms of business volume. Alfa-Bank's forex dealing offers corporate customers off-exchange inter-bank market quotes via its in-house trading platform, Alfa-Business Online and Alfa-Business Mobile, thus attracting many new customers.

Alfa-Bank efficiently fulfils its customers' orders via the Alfa-Direct stock exchange terminal for operations with a wide range of stock and forward market assets of both Russian and foreign origin. The Bank is also rapidly developing a line of investment products.

Alfa-Bank's expertise has been confirmed by the recognition of the professional community. In October, Alfa-Bank won the prestigious 2019 Loans Cbonds Awards in the Best Russian Bank on the CIS Syndication Market category. In December, the Bank also won Cbonds Awards in the Best Investment Bank for Working with II-III Echelon Borrowers category and Best Organiser of High-Yield Transactions category.

In 2019, Alfa-Bank considerably strengthened its digital services for large corporate clients (issuance of international letters of credit in the Internet bank and access to support of international economic activity through direct integration with the client's ERP).

The Bank offered a conceptually new liquidity management solution for corporate customers based on blockchain technology using smart contracts. Together with the X5 Retail Group, we launched GTLM (Global Treasury & Liquidity Module, earlier represented as Distributed Treasury and Cash Management DTCM), which is the first Russian blockchain-based business application that enables payments and liquidity management within the holding and for managing credit and deposit solutions.

The solution embodies the service model of engagement between corporations and the Bank (BaaS, Bank-as-a-Service), an important element for large business that need tailored solutions and that are continuously changing and optimising their internal processes. The new service will provide customers with access to an online treasurer function that provides flexible control over a pool of companies and limits and positions management settings.

The key characteristic that distinguishes GTLM from all other market offers is that we do not provide clients with a channel to send orders to the Bank, but rather with an instrument to independently determine the product business logic and "create a bank" customised for the client. Here, we actually provide infrastructure services, similar to business of global cloud service providers.

Alfa-Bank is a leader in using blockchain technology in Russia across several different platforms, including Ethereum, Hyperledger Fabric and R3 Corda. In March 2019, Alfa-Bank joined the Marco Polo project, the large and quickly expanding international trade finance network. In July, Global Finance recognised Alfa-Bank with the 2019 Innovators Award for blockchain projects for large companies.

In September, Alfa-Bank joined the Interbank Information Network® (IIN®), a platform for sharing information required for payment completion while minimising frictions in the global payment process and enabling quicker receipt of payments with fewer steps.

"Due to the Interbank Information Network, we expect a considerable optimisation of KYC/AML procedures in international money transfers, which take substantial resources to conduct," said Dina Merkulova, Head of Trade Finance at Alfa-Bank, adding, "This will help us provide the best international settlement services in the market to our customers".

In October 2019, Alfa-Bank and Novolipetsk Metallurgical Plant (NLMK) in cooperation with Commerzbank (Germany) and Vesuvius (Germany) launched a pilot project for cross-border delivery payment via Marco Polo.

Current corporate purchasing and supply processes are extremely cumbersome due to the need to execute and exchange multiple paper documents, while bank instruments are not integrated into customers' business processes. Marco Polo, based on R3 Corda, helps Alfa-Bank offer its customers a wide range of international trade finance solutions and provides a seamless connection to the world trade ecosystem.

"Projects like Marco Polo create much value for customers, making international trade more transparent and manageable due to integrated payment, finance and discount bank instruments", Dina Merkulova, Head of Trade Finance at Alfa-Bank, said.

Small and Micro Business

Small and Micro Business is growing at an impressive pace in all directions, such attraction of new customers, growth of turnover on accounts, lending and customer accounts portfolio.

In 2019, we had a record increase in the number of customers, including by more than 240,000 in transaction business (settlement and cash services), more than 500,000 active customers and a more than 25% increase in the attraction of customer accounts to RUB 230bn.

Alfa-Bank has made every effort to make onboarding as easy and convenient as possible. Once clients fill in their request on the website and sign just one "paper" document during a meeting with a Bank representative at the place of their choosing, they may use the new current account in 20 minutes.

In addition to standard payment and cash services, customers may immediately connect additional services and products (such as corporate cards, payroll card programme, partners programme, trade and internet acquiring, and if offered by the Bank, a credit card or loan).

The automation of back office processes conducted in 2019 considerably reduced the processing time for requests. Some requests, for example, from individual entrepreneurs, are processed hands-free. Next year, we plan to automate the processing of corporate requests.

The development of attraction channels continued in 2019. Using open APIs, Alfa-Bank builds infrastructure for its partners in remote cities, enabling remote client registration. This is convenient for our customers and also reduces the process costs for the Bank.

The growth of our customer base and the automation of credit scoring in 2019 resulted in a significant increase in lending to small and micro business launched eighteen months ago. Now, this lending factory is gaining momentum.

Lending volumes have more than doubled, and our market share increased from 8% to 11%. Alfa-Bank simplifies procedures offering instant and "easy" loans, when a customer is required to provide a minimum number of documents and their credit scoring is based on big data. The percentage of express loans decided upon during a day in the total small business portfolio structure increased from 19% to 40%. Scoring automation benefits the Bank, too, resulting in a considerable reduction of operating expenses for such products, for example, for overdrafts by more than 1.5 times.

Total turnover for SME customers (payments and settlements, foreign exchange operations of importers and exporters, business card transactions) increased by one-third, while trade and Internet acquiring turnover more than doubled. Around 65% of small business customers use b2b cards that may be instantly issued via Alfa-Bank's mobile bank.

As a result, Alfa-Bank has a high quality, active small business customer base. Analysis of transaction activity shows that our customers are strong, competitive companies that growing in the face of challenging economic circumstances and are active users of Alfa-Bank's settlement and payment services.

Products most frequently requested by small businesses include:

- Virtual cards with the same functionality as plastic cards that may be instantly issued via the mobile Internet bank and may be linked to the client's settlement account and immediately used for payments and even cash withdrawal (if the ATM has an NFC-reader). Virtual cards may be added to Apple Pay and Google Pay.
- Payments by PIN code, fingerprint and face ID. Payments are confirmed by using a PIN code or biometric data (fingerprint or face ID). Customers do not need to enter an SMS text code, and payments are more secure than with an SMS text code.
- QR-code recognition in invoices for payment. If a client receives an invoice with a QR code, they may just scan it and the relevant data will be entered in the payment form. Similarly, a client may send an invoice for payment with a QR code to counterparty.

In 2019, Alfa-Bank launched a range of new products for small business, including a unique pilot project to provide new and small businesses with credit cards at 1% per month. The card is offered only to new customers and is intended to help start-ups, with a credit limit up to RUR 100,000 and a grace period of up to 60 days.

In the previous year, Alfa-Bank digitalised its entire deposit line. Our clients may now enter into deposit transactions via Internet and mobile banking. Operations take less than one minute, and additional income may be received by depositing funds for a period from one day.

In addition to traditional niches, Alfa-Bank is finding new sources of fee and commission income. Our experience shows that clients highly appreciate the Bank's assistance in business development. Their feedback suggests that they do not always have a clear picture of the relevant legal and regulatory requirements, because of the large number of recent changes aimed at strengthening tax and financial control. Prudent companies often conduct transactions that are suspicious from the regulator's point of view, thus compromising their businesses and reputations.

Alfa-Bank's Svetofor service will clearly and explain key regulatory requirements, protecting bona fide business clients and maintaining customer loyalty (automatic monitoring of the company's operations helps assess the company's compliance with regulatory requirements and, in cases of high risk, pro-actively correct the indicators to an acceptable "green light" level to avert the imposition of restrictions).

Other issues important for small businesses are searching for counterparties, increasing the number of business partners and expanding into new markets. In 2019, we launched the Safe Transaction service for b2b settlements, enabling companies and entrepreneurs to conduct transactions 24/7 without contacting a bank or a lawyer, with a 100% guarantee that the parties

will meet their obligations. “Safe transactions” are concluded online, do not require preparation of documents, and make it possible to find counterparties in all Russian regions, as the financial protection is valid everywhere in Russia.

Another promising line of business is small business payroll card programmes. Even now, in terms of the number of customers and financing under the payroll programmes, the small business segment is comparable to large corporate business. As a result of small business development and payroll “officialisation”, companies are adopting payroll card programmes. Although the average small business payroll account is smaller than in the 50 leading companies, we have many such customers. They appreciate our service-oriented, customised approach and competitive offerings with flexible conditions that taking into account the objectives of small businesses as well as of their employees.

Generally, the small business service principal at Alfa-Bank is to offer the best financial and non-financial services that promote our clients’ businesses and improve their competitive capacity and efficiency. This means improving the user friendliness and quality of our services, moving the Bank’s functions to online channels, and reducing the time and costs of working with the Bank. To this end, we offer various trainings and master classes (in Alfa-Bank’s Customer Club). In addition, the Bank regularly prepares “Small Business Pulse” research to learn about our customers’ challenges and demands, and to develop relevant solutions and improve the quality of our service.

In June 2019, the reputable UK-based *Euromoney* journal recognised Alfa-Bank as the CEE’s Best Bank for SMEs in 2019 for introducing innovative settlement and credit services for SMEs, increasing its lending and client bases significant and operating an efficient business model in the SME servicing segment.

Medium Corporate Business

Medium Business is an important business line in the Alfa-Bank structure. This is quite a wide segment of clients that includes companies and groups of companies with annual earnings from RUB 350m to 10bn (tens of thousands of companies that form a stable and diversified customer base). Medium Business account for more than 11% of the Bank’s corporate loan portfolio and 12% of operating income.

Even now, one in four Russian medium-sized companies has an account with Alfa-Bank (a very impressive indicator). The Bank has digitalised the acceptance of documents and signing of loan agreements using enhanced electronic signatures. Currently, about 60% of our clients use this service to save time. We acquire about 20,000 new medium-sized business customers annually.

One of the key priorities for our Medium Business is to develop new transaction products. We traditionally have strong positions in providing foreign economic activity services for Russian exporters and importers.

FEA participants face a number of problems, such as complicated customs rules, the need for transparency and speed of settlements with external counterparties, and the tightening of exchange regulation and control, which requires particular care in document management.

Therefore, in addition to settlement services and classic banking services, Alfa-Bank offers integrated solutions such as hedging and trade finance instruments, international factoring, foreign trade contract management and exchange control, as well as legal and tax consulting, and assistance in finding foreign partners and in coordinating with tax and customs authorities and even logistics.

Our clients expect high-tech services. Today, Alfa-Bank is the market benchmark in remote channel functionality, with more than 80% of operations carried out in our Internet bank platform, from settlements and payments to lending, depositing and currency control. In June 2019, according to Markswebb Rank & Report 2019, Alfa-Business Mobile for corporate customers was named one of the leaders in Russia for both the iOS and Android platforms.

Specifically, we were the first in Russia to offer our SME customers a robust service in Internet banking and mobile applications for exchange model conversion transactions without using broker's accounts. Our clients may directly convert foreign currency at rates comparable to the rate on the exchange (such terms are valid for transactions up to 100,000 units of foreign currency, which makes 90% of all SMEs transactions).

The service makes it possible to monitor foreign currency dynamics and make transactions online. The information is updated every second and settlements are made in real time. Importantly, there is no need for customers to open a broker account and credit money thereto, losing time and missing out on a good exchange rate. Currency is immediately transferred to the current account, facilitating instant response to changes in the foreign exchange market. In addition to saving time, the service protects clients from financial losses during time of volatility on the foreign exchange market.

Furthermore, Alfa-Bank offered SME customers a system of permanent discounts for conversion operations with very simple terms: as more conversion operations are conducted, clients automatically receive a larger discount or smaller rate for the next period. The accumulation rating principle laid the foundation for a new package of services called VED+. More than 2,500 customers have already tried out and appreciated this feature. Irrespective of conversion rate reduction, we increased the average income per client due to increased turnover.

Continually improving services for FEA participants, Alfa-Bank provided access to SWIFT GPI—an innovative technology for ongoing monitoring of international payments via the inter-bank system. The service is provided free of charge and offers our importer customers with an unprecedentedly high level of transparency and control over each payment and acceleration of settlements with international counterparties. In the new Internet bank version, customers see the entire cash movement path, from payment processing by Alfa-Bank throughout the chain of correspondent banks to crediting to the ultimate beneficiary's account.

Alfa-Bank is also increasing lending in the Medium Business segment. At the end of 2019, the lending portfolio increased by 35% to RUB 244bn, due to growing number of borrowers (by 70% over the last year) rather than to large checks. These results are largely thanks to our automation of the lending process. Small companies (up to RUB 800m in earnings) call for "light" flow products with a small amount of up to RUB 30-100m. Alfa-Bank has automated the scoring for such loans. The decision is made based on external information and analysis of the

client's transaction activity with the Bank. "Light" loans account for the main inflow of borrowers and allow diversification of the loan portfolio, thus reducing risks.

We have opened new opportunities by transitioning to a new model of lending to property developers using escrow accounts. The housing financing market amounts to about RUB 6 trillion (80 percent of which are funds of participants in cooperative housing projects). Following the transition to the new financing model, such funds will be replaced by bank lending, which is to exceed RUB 6 trillion over the next five years, representing significant potential for the market and for our Bank.

Digital Business

At the end of 2018, sales and customer support functions for the Bank's online channels were assigned to Digital Business, headed by Ivan Pyatkov. The first year was marked by a number of successes.

By the end of 2019, the target of making Alfa-Bank's mobile applications into leaders in the segment had been met and even exceeded. The applications were substantially revised, helping us to win first place in the Digital Office category in Marksw Webb's rating of mobile bank applications, third place in the Daily Banking category (for private customers), and second place in the Mobile Banks for Managers category (for legal entities).

In 2019, the ratings for the new mobile application for private customers increased from 3.4 to 4.9 out of 5 in the App Store and from 4.0 to 4.8 of 5 in Google Play, while the score for the application for legal entities went from 4.7 to 4.8 of 5 in App Store and from 4.5 to 4.7 of 5 in Google Play. Alfa-Bank applications have established themselves as leaders among banking applications. The Bank application also topped the USABILITYLAB rating for accessibility of bank mobile applications for customers with disabilities.

In 2019, the accessibility of operations in electronic channels for individuals increased by more than 20%. As a result, according to Finalta by McKinsey research, the share of customers active in mobile application was the largest among the 250 major world banks in Finalta sampling.

In 2019, Digital Business developed and started to implement a new strategic plan for the Distant Customer Support Department (DCSD). Over the course of the year, the level of chat automation in the Bank's mobile application increased five-fold. The development of the DCSD is focused on quality improvement and process robotisation.

Alfa-Bank was one of the first to take part in the Central Bank's pilot instant payment project. On 28 February, the Bank offered its customers free instant interbank transfers via mobile phone. Thanks to its user friendliness and reliability, Alfa-Bank is consistently among the three leading banks in IPS transfer turnover. In 2019, the Bank processed more than RUB 30bn of IPS transfers. The national card payment system recognised our implementation of IPS functionality as the best in the market.

In 2019, both initial and second sales of cash loans through telemarketing increased fivefold, and sales of debit cards doubled. Existing customer activity also considerably increased, with more than double the number of outgoing calls.

The marketing optimisation system, which predicts the communication channels clients want to use, helped reduce the number of ineffective communications. The project helped to reduce customer communication costs by more than 50%.

The Bank developed and implemented a CRM system for corporate customers. In 2019, the CRM was used to provide 28% of loans to small and micro businesses.

In 2019, Digital Business created a nationwide credit and debit card delivery network, adding consumer loans at the year end. Bank representatives visit clients, help sign loan-related documents and install the Bank's mobile application, and then issue and activate debit cards.

The Bank now has a UX and UI Competency Centre with an operating usability laboratory, where some hundreds of A/B tests and UX research projects were conducted. As a result, online sales processes were deeply revised and conversion at all stages of the online sales funnel was significantly improved.

In 2019, Digital Business was recognised with a number of awards:

- In March 2019, Alfa-Bank's call centre was awarded the Crystal Earphone in the Best Debt Collection Team category and Best Personnel Training and Development Programme category, and was praised by the jury in the Best Personnel Incentive and Engagement Programme category and Best Sales and Telemarketing Team category.
- In June 2019, according to Marksw Webb Rank & Report 2019, Alfa Business Mobile bank for corporate customers was recognised as one of the Russian leaders for the iOS and Android platforms.
- In October 2019, the Alfa-Mobile application led the accessibility rating of mobile bank applications for disabled customers. The rating was based on USABILITYLAB research.
- In December 2019, Marksw Webb named Alfa-Mobile the best mobile application among Russian banks in the Digital Office category. The leader of the mobile banks rating changed for the first time in five years.

Alfa-Bank's strategic plans and development prospects

Despite the increasingly complicated macroeconomic environment, Alfa-Bank is intending to continue implementing its strategic initiatives, including digital transformation and strengthening of technological leadership. We will improve our mobile application, implement paperless banking, open unique next-generation branches and continue developing partner channels in regions where we do not have offices.

The Bank is actively working with the Russian Government on implementing anti-crisis support measures and is offering measures of its own. Alfa-Bank's strengths—flexibility and speed combined with reliability—help us promptly respond to changes in the macroeconomic situation, offering our customers timely and high-tech solutions.

Given the Bank's responsibility, we believe that the current market situation makes it possible to strengthen customer relations and customer confidence and to build up our client base.

Alfa-Bank has tightened control over the quality of its loan portfolio. We closely monitor scoring and collection processes in all business segments, while looking for new sources of risk-free income that would ensure the sustainability and profitability of our business model.

Alfa-Bank continues to work on developing the retail business, with the principal growth to take place in the least risky segments: secured mortgage and credit cards, a flexible instrument for prompt limit management based on updated information on the borrower.

The corporate segment is also invariably important for Alfa-Bank. Today, it accounts for more than 70% of the gross loan portfolio. In large corporate business, we plan to grow by working with quality borrowers and leading companies in the Russian economy. In mass and medium business, we intend to further increase our customer base in order to increase our market share. Advantages in the corporate segment will ensure the development of product supply and innovations that give customers a breakthrough experience and help the Bank to reduce costs.

The Bank will continue its policy of transaction income growth. Our strategic goal is to cover all operating expenses with risk-free income on the long-term horizon. In retail, small and micro business, we already have very good positions in customer business. Hence, the principal driver of growth in fee and commission income will be increasing the number of active customers. In medium corporate business, we will expand our customer business, while in large corporate business, we will grow together with the market.

THE BANK'S RISK
MANAGEMENT RELIES
ON IMPROVING INTERNAL
METHODOLOGY AND RISK
MANAGEMENT PROCESSES
TO MAINTAIN AND
STRENGTHEN OUR
POSITION IN THE BANKING
MARKET.

Key risk factors in the Bank's business

The Bank attaches great importance to following the best risk management practices. Our primary risk management objective is an optimal return-to-risk ratio in our operations, including the provision of acceptable risk levels within the established risk appetite and limits. The Bank continues to improve risk management as a key element of implementing its strategic plan.

The Bank bases its risk management system on principles consistent with Russian law, international standards, and best practices in risk management. The Bank implemented the Internal Capital Adequacy Assessment Process (ICAAP) on Stand-alone and Alfa Banking Group levels. Capital adequacy planning is based on stress testing subject to risk significance. The Bank uses its capacities to meet its targets of increasing profitability and business expansion, continuously monitoring risk levels to minimise and cut losses that may occur in the course of its business.

The Bank's risk management relies on improving internal methodology and risk management processes to maintain and strengthen our positions in the banking services market. The Bank develops and improves risk and capital management approaches based on its internal credit risk models, providing for relevant infrastructure and IT system development. Credit risk assessment based on internal ratings will enable the Bank to manage its business more efficiently, subject to the consumed capital and accepted risk level. With the transition to such assessment, the Bank will be able to assess its credit risks more precisely based on customer specificity.

The Bank's major risks are non-retail credit risk, counterparty credit risk, retail credit risk, market risk, operational risk, liquidity risk, interest-rate risk in the banking book and risk of non-retail credit risk concentration.

Information on the structure of all significant Bank-specific risks is disclosed regularly, as required by the Central Bank, [on the Bank's website](#).

Risk management includes risk assessment, establishment of risk limits, monitoring, control and reporting, and internal risk management processes and procedures. The Bank's risk management is based on the existence of three independent lines of defence and the prevention of conflicts of interest.

General principles of risk and capital management:

- Principle of accountability and involvement of executive management bodies and senior managers: a coherent and efficient risk management organisational structure, responsibility for maintaining requisite capital adequacy, awareness of the level of accepted risks and of incompliance with the established risk management procedures and established limits.
- Principle of risk culture development: involvement and proactive attitude of all employees towards risk identification, assessment, control and monitoring, efficient communication and interaction with relevant functions within the risk management system, understanding and awareness by each employee of their responsibility in risk management within their competencies.
- Principle of continuous risk management: risk management is an ongoing and continuous process, including risk identification, analysis, decision-making and compliance control—all these are continuous processes implemented to ensure competitive advantages and sustainable functioning.
- Principle of independent risk assessment and control: risk management is based on the concept of three independent lines of defence. The principles and other elements of the concept are set forth in detail in Section 4 hereof.
- Principle of risk limits: the Bank establishes a system of limits and indicators limiting the risk exposure.
- Principle of multi-risk treatment: continuous improvement of risk management subject to changes in the environment, new lines of business, etc.
- Principle of transparency and full disclosure: as part of regular reporting, objective information is provided in due time and in full to executive officers, collective bodies and investors, including for informed decision-making.
- Principle of efficient payroll system: identification of risk owners and risks exposure levels and risk occurrence horizons in determining remuneration.
- Prudence concept: transactions made with due regard to available capital, and comprehensive analysis of risks resulting from transactions.

Risk management: organisational structure

The Bank's collective risk management bodies include the Board of Directors, the Board of Directors' Audit Committee, the Board of Directors' Staff and Remuneration Committee, the Board of Directors' Risk Committee, the Executive Board, the Asset and Liability Management Committee (ALMC), the Credit Committees, including the Chief Credit Committee (CCC), the Non-Retail Credit Committee (NRCC) and the Retail and Mass Business Lending Risk Committee (RMBLRC), the Corporate Investment Bank Default Committee (CIBDC) and the Operational Risk Steering Committee (ORSC).

The Bank has a Board of Directors' Risk Committee, which is responsible for preliminary examination, analysis and preparation of proposals for the Board of Directors on the following key matters:

- Implementation of internal credit risk quantitative assessment models;
- Risk appetite establishment in accordance with the strategic plan and long-term goals based on stress testing results;
- Risk reporting review, control of implementation of internal capital adequacy assessment procedures;
- Development of positive risk culture and implementation of three lines of defence;
- Efficient corporate risk and other management at the Bank.

Basic provisions of the Bank's Risk and Capital Management Strategy

ICAAP development and implementation approaches are incorporated in the Bank's risk and capital management strategy. The purpose of the strategy is to establish the fundamental principles of the Bank's system of management of significant risks and capital by implementing ICAAP, which is imperative for efficient risk-based management, implementation of the Bank development plans (development strategy) approved by the Board of Directors, and protection of interests of the Bank's customers and shareholders.

The Bank's risk and capital management system provides for the following procedures:

- Determination of approaches to ICAAP development and implementation and principles of management of significant risks and capital;
- Determination of risk appetite;
- Determination of significant risks;
- Determination of planned structure of required capital and risks;
- Aggregation of capital requirements and establishment of relevant methods;
- Stress testing organisation;
- Monitoring of ICAAP implementation as part of regular reporting process;
- Audit of ICAAP implementation efficiency.

Credit risk

The Bank identifies and assumes credit risk as the principal risk, that is, the risk of the borrower's/counterparty's failure to repay the debt in full when due. Credit risk is divided into non-retail credit risk, retail credit risk and counterparty credit risk.

The Bank's credit risk management process provides for the following procedures:

- Loan provision and relevant decision-making procedures;
- Default defining;
- Limits establishment;
- Collateral requirements and assessment methods;
- Credit risk assessment considering all types of credit risk;
- Credit risk monitoring and control procedures;
- Stress testing;
- Validation;
- Reporting.

The Bank develops and implements internal non-retail and retail credit risk measurement models.

Non-retail credit risk

The credit risk assessment framework covers all types of transactions with inherent credit risk, concentration risk and residual risk.

Non-retail credit risk management is described in the Bank's lending policy.

Credit risk limits for corporate borrowers include:

- Limits on credit risk concentration to the Bank's capital (credit risk concentration limit for borrowers/groups of related borrowers, credit risk concentration limits for shareholders and insiders, limit of gross large credit exposure);
- Limits on credit risk concentration in the loan portfolio (based on borrower ratings, securitisation level subject to rating, economic sectors, etc.);
- Lending limits for particular borrowers/groups of related borrowers are established based on the credit score of such borrowers and form the basis for lending to particular borrowers and management of the main terms of loan transactions, such as credit transaction maximum term and amount, and type and amount of collateral;
- Administrative limits restrict the authority of functions and authorised bodies/officers of the Bank to make decisions on lending to borrowers.

The established limits are regularly monitored, controlled and revised.

The Bank uses control mechanisms that promote efficient risk management, including:

- Regular preparation and submission of portfolio reports for relevant committees;
- Determination of the basic principles regulating credit policy at the department level;
- Regular analysis of the need to revise policy principles;
- Development of lending principles providing for a disciplined and focused approach to decision-making;
- Statistics-based decisions;
- Continuous monitoring of the current lending process by the Risk Management Department and Internal Audit Department to assess efficiency and make changes, as appropriate.

Approaches used in corporate lending are based on a standard underwriting procedure (subject to the borrower's segment), including by verification of the credit score of the potential borrower, assessing the quality of the collateral and reviewing compliance of the transaction structure with the Bank's policy and limits. Internal default probability assessment models have been developed for the core segments of the corporate portfolio.

The Bank uses a wide range of techniques to reduce the credit risk of lending transactions by managing loss factors of particular transactions, such as probability of default, loss given default and exposure at default, and systemic risk factors at the portfolio level. The borrower's ability to service the estimated debt is assessed at the transaction level. To reduce the risk, the Bank accepts different types of collateral, sureties of legal entities and individuals, and bank guarantees.

The Bank's IT systems are regularly upgraded to support the implementation of risk management practices consistent with Basel II (including internal rating calculation support, data quality, collateral and default recognition management).

Management of concentration risk arising due to the Bank's exposure to large risks, which may cause substantial losses that threaten the Bank's solvency and ability to continue operations, includes identification and measurement of concentration risk and establishment of concentration limits. Credit risks concentration limits in the Bank's loan portfolio are based on borrower ratings, securitisation levels, economic sector, type of company, etc.

Counterparty credit risk

Counterparty credit risk management is consistent with the non-retail credit risk management processes defined in the lending policy. Counterparty credit risk is managed with due regard to the related market, operational and liquidity risks.

Counterparty credit risk management process includes a number of procedures and methods for risk identification, assessment, monitoring and control, and reporting.

Counterparty credit risk management procedures include:

- ensuring that transactions with counterparties are exercised only subject to preliminary assessment of the counterparty's financial standing and probability of occurrence of counterparty credit risk both before and during settlements under the transaction;
- lending limits and trade limits for counterparties in the counterparty credit risk limits;
- determining the current and potential credit risk for derivatives based on the existing netting agreement (in connection with available collateral) and without existing netting agreement (in connection with available collateral);
- assessing counterparty credit risk based on concentration risk by type of transaction in respect of groups of related counterparties, markets, country risk, etc.;
- regularly monitoring counterparty quality and credit risk levels.

Counterparty credit risk limits include:

- upper level counterparty risk levels, such as portfolio concentration limits that limit risks for counterparty (group of related counterparties), position on transactions with high risk counterparties, position in transactions with counterparties incorporated in high risk countries.
- Individual limits for a particular counterparty or group of counterparties.

Retail credit risk

Retail credit risk management is based on risk assessment in decision-making on loan products, and loan portfolio management aimed at building a portfolio least sensitive to volatility and maintaining the target risk-to-return ratio.

The system of limits is based on the Bank's retail lending policy and mass business lending policy. Credit risk limits for retail borrowers include loan transaction maximum size limit, net loan loss limit and other limits determined in accordance with the Bank's procedure. Limits are monitored and controlled on a regular basis.

Automated risk assessment is made using statistical models (scoring) based on the analysis of the existing loan portfolio and borrowers' features. Scoring is based on questionnaire information, history of client-Bank relations and external information, i.e., from the Credit History Bureau and performance results of mass business entities (to assess mass business credit risk), which include individual entrepreneurs and legal entities established under Russian law with annual earnings according to statutory reporting of no more than RUB 360 million, and individuals who are owners of mass business entities). Credit risk is assessed using internal models developed based on the internal rating approach and other types of scoring models (such as the borrower fraud prediction model, etc.).

Monitoring includes tracing of the following indicators: approval/rejection rates by product/customer segment; delinquency (long-term or accidental); migration (past due balance roll rates into various delinquency buckets); calls and promises made to monitor collection efficiency; actual historical losses by product and vintage; special pilot programmes; write-off for each product portfolio; recoveries for each of product portfolios; stability of risk assessment procedures; results by products based on such assessments and efficiency/efficacy of segmentation procedures. In performing such monitoring, the Bank focuses on risk-adjusted margin to optimise the profitability of the mass business and retail portfolios.

To increase the efficiency of retail loan repayment, statistical models are used that allow to detect loan transactions with high risk of deterioration of the borrower's payment behaviour and use the optimal debt collection procedures in due time. Debt collection procedures are applied to mass business borrowers, if information on the deterioration of the financial standing of such mass business entity is received from external and/or internal sources (borrower/surety/turnovers on the borrower's settlement accounts with the Bank), or in case of any delinquency under the loan agreement.

Market risk

The Bank assumes market risks, i.e., risks associated with changing the value of the Bank's positions due to changes in market indicators: value of issue-grade securities, stock indexes, currency exchange rates, book prices of precious metals and commodities, and interest rates.

Market risk management procedures include:

- Determination of trading portfolio composition;
- Preliminary analysis for availability of the relevant market risk management methodology before making transactions with new types of financial instruments or entry into new markets;
- Pricing of trading portfolio instruments, determination of nature and types of transactions;
- Methods of market risk measurement and determination of capital requirements in respect of market risk;
- Pricing of trading portfolio instruments;
- Establishment of the system of limits and their establishment procedure;
- Limit compliance control and monitoring;
- Market risk stress testing;
- Validation of models of market risk losses assessment in a stress scenario;
- Market risk reporting.

The Bank's market risk management is based on the principles set forth in the Bank's internal documents, in particular, the market risk management policy approved by the Executive Board of the Bank.

The exposure of the Bank's trading book to market risk is managed by limits on risk metrics used in the Bank and on the list of permitted instruments established by the Asset and Liability Management Committee (ALMC).

Market risk is managed in compliance with the system of limits on risk metrics used in the Bank:

- market risk limit in compliance with the Bank of Russia Regulation No. 511-P;
- limits on open position in securities and derivatives;
- open forex position limits;
- limits based on risk measure (VaR metrics);
- other limits and limitations (metrics of assessment of losses in a stress scenario).

Stock (quotation) risk management. Stock risk is the risk of losses due to unfavourable changes in quotations of securities (including those with attached management rights) in the trading portfolio and derivatives caused by factors related to the issuer of securities and derivatives (special stock issuer risk) and general fluctuations of market prices of financial instruments (general stock risk).

To measure the risk to the Bank's financial instruments in the trading position of the investment business, the Bank imposes limits on open positions and risk exposure in accordance with Regulation No. 511-P and VaR limits. Stock risk is included in the list of risks taken into account in calculation of the above metrics.

Forex risk management

Forex risk is the risk of losses due to unfavourable changes in foreign exchange rates and/or precious metal prices in positions denominated in foreign currencies and/or precious metals.

To limit forex risk, in accordance with Bank of Russia Order No. 178-I "On Establishing Limits of Open Foreign Currency Positions, their Calculation Methods and Specific Features of Supervision over their Compliance by Credit Institutions" of 28 December 2016, the Bank established limits on open foreign exchange positions of 20% of the Bank's equity capital in each foreign currency and a balancing position in RUB of 10% of the Bank's equity capital. Calculation and control of open foreign exchange positions are made and exercised by the Treasury and daily monitored by the Risk Management Department in accordance with the Regulation on control of the Bank's open foreign exchange positions, and preparation and submission of a report on open foreign exchange positions according to Form No. 0409634.

The Asset and Liability Management Committee established the following internal limits directly or indirectly constraining the Bank's foreign exchange position:

- limits and signal values for market risk VaR metrics (1-day horizon, level of confidence 99%) calculated based on the Bank's foreign exchange position;
- limits and signal values for market risk metrics Risk Exposure in accordance with Regulation No. 511-P calculated based on the Bank's foreign exchange position.

Interest-rate risk of the bank portfolio

Interest-rate risk of the bank portfolio is the risk of financial losses and/or reduction of equity capital of a credit institution due to decrease of net interest income (interest margin) and/or adverse change in the value of assets and liabilities, and off-balance sheet assets and liabilities of the credit institution due to changes in interest rates on financial markets. This risk is reflected both in the Bank's income and the value of its assets, liabilities and off-balance-sheet instruments. Interest-rate risk of the bank portfolio is categorised as follows: revaluation risk, risk of change in the form and slope of yield curve, and basis risk.

Management of interest-rate risk of the bank portfolio includes the following procedures:

- Review of the list of assets and liabilities sensitive to changes in interest rates;
- Identification of types (sources) of interest-rate risk;
- Development and implementation of quantification metrics for interest-rate risk;
- Establishment of limits (signal values) and metrics of interest-rate risk;
- Calculation of limits (signal values) and metrics of interest-rate risk;
- Control and monitoring of limits (signal values) of interest-rate risk;
- Stress testing of interest-rate risk;
- Validation (assessment of ability to adequately assess risk) of the metrics of interest-rate risk;
- Development of internal documents on interest-rate risk management;
- Reporting on interest-rate risk.

The system of limits is based on internal approaches to assessment of change in the economic value of capital and interest margin sensitivity to change in market rates. The particular type and value of limits, and the frequency with which the limits are revised, are established by the Asset and Liability Management Committee.

Liquidity risk

Liquidity risk is the risk of the Bank's inability to finance its operations, i.e., ensure assets growth and meet its liabilities at maturity without incurring losses that would threaten the Bank's financial stability. Liquidity risk management is the responsibility of the Treasury and Risk Management Department, and liquidity risk control is the responsibility of ALMC.

Liquidity risk management addresses different risk forms, including liquidity gap risk, contingent claim risk, market liquidity risk, funding risk, compliance risk, and concentration risk.

The Bank maintains a stable funding ratio, including primarily amounts payable on corporate and retail deposits, debt securities in issue, payments due to other banks, and adequate diversified portfolios of liquid assets, in order to be able promptly to respond to contingent claims for liquidity.

The Bank's liquidity management on a regular basis includes:

- Analysis of liquid assets necessary for settlement of obligations when due;
- Maintenance of access to various financing sources;
- Control of concentration of raised funds;

- Control of compliance of limits (metrics) with statutory and interbank requirements;
- Control of compliance with liquidity criteria in accordance with the requirements of the Central Bank: instant liquidity ratio (N2), current liquidity ratio of credit institution (N3), short-term liquidity ratio (N26), and net stable funding ratio (N28);
- Maintenance of adequate portfolio of short-term liquid assets primarily including liquid trading securities included in the Lombard list of the Central Bank, banks deposits and other interbank instruments;
- Regular liquidity stress testing in different scenarios under standard and crisis market conditions.

Operational risk

Operational risk is the risk of losses caused to the Bank due to unreliable and deficiencies of internal management procedures, employee negligence, failures of information or other systems, or as a result of external events. Operational risk includes legal risk and regulatory risk but excludes strategic and reputation risk.

Operational risk management is a set of procedures for operational risk identification and assessment, monitoring and reporting, control and/or minimisation.

To identify and assess operational risks, the following instruments are used:

- Analysis of new processes;
- Collection and analysis of operational risk events of the Bank;
- Collection and analysis of operational risk events of other credit institutions;
- Risk control self-assessment (RCSA);
- Key risk indicators (KRI);
- Operational risk scenario analysis (stress testing).

Analysis of new processes includes identification and assessment of new potential operational risks in the Bank's processes, products or systems at the development or implementation stage.

Owners of operational risks in the Bank (to the extent within the functions of their units) are the heads of the relevant units. The Operational Risk Division of the Risk Management Department analyses and assesses the performance of the operational risk management system in the Bank's units, organises implementation of the operational risk management system in the Bank generally, controls the operational risk management system, provides knowledgeable assistance at various stages of operational risk management (identification, assessment, minimisation, control, monitoring), provides support to units and operational risk-related training for personnel, and provides comprehensive consultations in the analysis of process risks.

Key methods for minimisation of operational risk controlled at the Bank level are:

- Development of transitioning procedures, division of powers and accountability for transactions that rule out operational risk;
- Control of compliance with the established procedures;
- Development of banking technologies and information security automation systems.

The Bank has effective Bankers Blanket Bond (BBB).

Principles of other risk management

Reputation risk

Reputation risk is the risk of losses incurred from a negative image of the Bank in the eyes of its shareholders, counterparties, regulatory authorities and other stakeholders and which may have a negative effect on the Bank's ability to maintain current and/or establish new business relations and maintain continuous access to funding sources.

The Bank has approved a Code of Corporate Ethics, which defines the Bank's mission and corporate values, and follows the principle of timely and efficient performance of its obligations to its clients and partners and follows strict compliance with the law and with the norms of business ethics. The Bank places special emphasis on establishing an efficient and reliable system of public disclosure of information in the mass media and on the Bank's website.

Strategic risk

Strategic risk is the risk of adverse change of various internal and external factors that may prevent the implementation of the Bank's strategy.

The Bank's strategic risk is controlled through managerial decisions based on the analysis of the current situation in the banking sector and forecasts, risk levels, actions of the Bank's competitors, customer needs, and the ability to provide personnel, financial and technical support for planned changes. Such analysis enables the Bank to take decisions in respect of the product range, fee policy, development of the branch network, and asset and liability management, including managing interest rates, budgets, and qualitative and quantitative development parameters. The strategic planning process includes the development of the Bank's strategic plan for three years, which covers the Bank's development targets, detailed plan for implementing strategic initiatives to achieve strategic targets, and an explicit financial model. The Bank's Board of Directors approved the strategic plan for 2019-2021.

Stress testing

Within the Bank's internal capital adequacy assessment process, the Bank assesses capital adequacy for significant types of risk under stress at least once a year. The purpose of stress testing is to assess the potential impact on the Bank's financial stability of stressful changes in external or internal factors that correspond to exceptional but probable events. As a result, the Bank tests its ability to maintain financial stability in periods of economic crisis and under stress, i.e., occurrence of significant risks that may harm financial stability of the Bank. This assessment reviews the capital required to cover all types of significant risks and determines the adequacy of available capital.

For each type of significant risk, the Bank develops an approach to stress testing specific to the Bank's operations, calculates the capital to cover potential losses, etc. Stress testing of capital adequacy is based on an aggregation of the results of stress testing of significant risks, after which the Bank determines the measures to potentially apply in stress scenarios.

The Bank develops an internal macroeconomic scenario of exceptional but probable events that may harm the Bank's business reputation or destroy it. Scenarios take into account the Bank's key features and business lines. The stress scenario is based on the historical crisis behaviour of macrovariables and hypothetical scenarios. Key external macroeconomic factors of the stress scenario are Russia's GDP, USD/RUB exchange rate, oil price, and key rate, with some additional external factors.

The Bank regularly modifies, revises and amends the existing risk management approaches, including approaches to stress testing of capital adequacy. Stress testing scenarios and results are approved by the Board of Directors. According to the results of stress testing conducted at the end of 2019 (with the horizon through 1 January 2021), the Bank is resilient to stress.

ALFA-BANK'S
CORPORATE
GOVERNANCE CODE
IS AN INTERNAL
REGULATION
THAT DEFINES
THE GUIDELINES,
RULES AND
STANDARDS
OF CORPORATE
GOVERNANCE
ON WHICH THE
BANK RELIES
IN ITS BUSINESS.

Information on the Bank's compliance with the Corporate Governance Code principles and guidelines

The Bank applies the principles of corporate governance set forth in the Corporate Governance Code recommended for use by the Bank of Russia (Bank of Russia Letter No. 06-52/2463 "On Corporate Governance Code" of 10 April 2014) to ensure efficient management subject to the Bank's ownership structure and scope of business.

To maintain corporate governance standards and improve the corporate governance system, in 2013, the Extraordinary Meeting of the Bank's Shareholders approved the Corporate Governance Code (Minutes No. 02-2013 of 2 December 2013) in accordance with the provisions of Russian law, Central Bank regulations and the Corporate Governance Code recommended by the Central Bank.

Alfa-Bank's Corporate Governance Code is an internal regulation that defines the guidelines, rules and standards of corporate governance on which the Bank relies in its business. The Code regulates the following areas: protection of the rights and legal interests of the Bank's shareholders, organisation of the work of the Board of Directors, determination of the remuneration system for members of the Board of Directors, executive bodies and other key managers of the Bank, strategic management, risk management coordination and internal control, information disclosure and material corporate actions.

In accordance with the Code, the Bank commits itself to apply the following general principles of corporate governance in its business:

- Compliance with statutory requirements, requirements of the Bank's charter, regulations and internal documents;
- Maintenance and protection of the rights of the Bank's shareholders;
- Equal treatment (in compliance with regulatory requirements) of the Bank's shareholders;
- Accountability of the Board of Directors to the Bank's shareholders;
- Strategic management of the Bank's business by the Board of Directors;
- Efficient control of the Bank's executive bodies by the Board of Directors;
- Efficient management by the Bank's executive bodies of the Bank's current activity in a reasonable and good faith way exclusively in the Bank's interests, and accountability of the executive bodies to the Board of Directors and the Bank's shareholders;
- Establishment and efficient functioning of the Bank's risk management and internal control system;
- Timely disclosure of complete and reliable information on the Bank;
- Openness and transparency of material corporate actions subject to the observance and protection of the rights of the Bank's shareholders.

Shareholders' rights and equality in exercising their rights

The Bank ensures the rights of its shareholders and equal conditions in how they exercise those rights. The procedure for convening, preparing and holding the General Meeting of the Bank's Shareholders is stipulated in the regulation on the General Meeting of Shareholders. In 2018, a new version of the regulation was approved. The amendments primarily concerned the redistribution of some decision-making power of the Bank's management bodies of the Bank, bringing its provisions in line with applicable laws and improving the procedure for holding meetings.

Shareholders enjoy equal and fair rights to participate in the distribution of the Bank's profits through dividend payments. The Bank may abstain from paying dividends if such payment is economically inadvisable and may create a false impression of the Bank (even if doing so would not formally violate any statutory restrictions).

The protection of shareholders' property rights and the guaranteed free disposal of their shares are secured by the Bank's choice of a reputable registrar, which applies streamlined and reliable technologies that efficiently account for and ensure shareholders' property rights. The Bank's registrar is AO IRC-ROST, a professional securities market participant that, in accordance with Russian law, carries out the maintenance of register activity under Central Bank Licence No. 045-13976-000001 of 3 December 2002.

Board of Directors

The Board of Directors is responsible for strategic management, risk management, internal control, oversight of the Bank's executive bodies and other key functions. The Board of Directors is accountable to the General Meeting of Shareholders.

The regulation on the Board of Directors defines the rights and responsibilities of members of the Board of Directors, the procedure for preparing and holding Board of Directors' meetings and the qualification requirements for members of the Board of Directors (excellent professional and business reputation, skills and expertise enabling them to assess information on the Bank's business and market environment to make professional judgements in banking).

In 2018, a new version of the regulation on the Board of Directors and amendments to the Bank's charter were approved.

As at the end of 2019, the Board of Directors had nine members, one of whom (Mr Vladimir Verkhoshinskiy) is also a member of the Executive Board. Three members (Mr Mikhail Fridman, Mr Petr Aven and Mr Andrei Kosogov) are the ultimate beneficiaries of the Bank, while Mr Oskar Hartmann is an independent member of the Board of Directors based on the criteria set forth in Bank of Russia Letter No. 06-52/2463 "On Corporate Governance Code" of 10 April 2014. This balance helps prevent conflicts of interest between the Bank, its shareholders and clients.

The performance of the Board of Directors is overseen by the Chairman of the Board of Directors, who organises its work, convenes and chairs Board of Directors' meetings, establishes the agenda and format for Board of Directors' meetings, signs minutes of Board of Directors'

meetings, chairs the General Meeting of Shareholders, signs agreements with the Chairman of the Executive Board and performs other functions provided for by the Federal Law on Joint-Stock Companies and the Bank's charter and regulation on the Board of Directors. In the absence of the Chairman of the Board of Directors, these functions are performed by the First Deputy Chairman of the Board of Directors, and in the absence of the latter, by a designated member of the Board of Directors.

For preliminary examination of crucial business issues, the Board of Directors has three thematic committees: the Audit Committee (to support the Board of Directors' oversight of the Bank's business and financial operations), the Staff and Remuneration Committee (to engage competent personnel to manage the Bank and provide incentives for their successful performance) and the Risk Committee (to preliminarily examine, analyse and prepare proposals for the Board of Directors on developing the Bank's risk and capital management strategy, establishing the Bank's risk appetite, overseeing the risk management system, developing the Bank's risk culture, applying the model of three lines of defence, and developing the Bank's risk management methods and risk measurement models to calculate the capital adequacy ratio).

The Board of Directors establishes the guidelines for the Bank's long-term activity, including approving the Bank's strategy and overseeing its implementation. In June 2019, the strategic plan for 2019-2021 was approved (Minutes of Voting in Absentia of the Board of Directors No. 08-2019 of 19 June 2019).

The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts between the Bank's management bodies, shareholders and employees. The Board of Directors approved a procedure for preventing conflicts of interest in the course of the Bank's business. The Board of Directors approved the Code of Corporate Ethics of AO ALFA-BANK (Minutes of the Board of Directors' Meeting No. 21-2015 of 15 December 2015) to lay down the standards of the Bank's performance and conduct of its employees aimed at maintaining ethical standards, quality of service and customer convenience, increasing profitability and improving the financial stability and efficiency of the Bank, its subsidiaries and affiliates. The Code is disclosed on the Bank's website for the general public. The Bank's employees and members of its management bodies have been personally informed about the Code. The Compliance Department monitors compliance with the Code's requirements at the Bank. The Bank has also developed and approved a regulation on the terms of and procedure for interested-party transactions by employees of AO ALFA-BANK and/or their Affiliates (Appendix No. 1 to Bank Order No. 1206 of 3 December 2010), Bank Order No. 980 on the participation of employees of AO ALFA-BANK in the management bodies of any legal entities unaffiliated with the Alfa Banking Group of 24 August 2012, and the anticorruption policy of AO ALFA-BANK (Minutes of the Board of Directors No. 18-2019 of 18 December 2019).

The Board of Directors assesses its performance, as well as its committees and members. In 2019, the Board of Directors assessed the Board of Directors' performance in a report that was reviewed at the Annual General Meeting of Shareholders.

Remuneration of members of the Board of Directors, executive bodies and other key managers

The Bank's principles of short- and long-term remuneration are based on the Bank's profitability, and the rate of remuneration is sufficient to recruit and retain skilled personnel.

In 2018, the Board of Directors approved new versions of the Bank's personnel policy (a system of principles and norms aimed at developing human capital in compliance with the Bank's strategy and mission) and remuneration policy (regulates the terms of and procedure for remunerating the Bank's employees). Before approval, the documents were considered by the Board of Directors' Staff and Remuneration Committee (Minutes of Voting in Absentia of the Board of Directors No. 11-2018 of 22 August 2018).

In December 2019, the Board of Directors approved a new regulation on the remuneration and reimbursement of expenses related to the performance of duties by the members of the Board of Directors, proposed that it be approved at the General Meeting of Shareholders. Following the approval of the new regulation, on Remuneration and Reimbursement of Expenses Related to Performance of Functions of Members of the Board of Directors by the General Shareholders' Meeting, declared void the older regulation (Minutes No. 13-2017 of 13 September 2017). The new regulation was approved at the General Meeting of Shareholders in January 2020.

Risk management and internal control system

The Bank has developed an efficient risk management and internal control system aimed at maintaining an acceptable level of risks and achieving the Bank's goals.

Risk management: organisational structure

The Bank's collective risk management bodies include the Board of Directors, the Board of Directors' Audit Committee, the Board of Directors' Staff and Remuneration Committee, the Board of Directors' Risk Committee, the Executive Board, the Asset and Liability Management Committee (ALMC), the Credit Committees, including the Chief Credit Committee (CCC), the Non-Retail Credit Committee (NRCC) and the Retail and Mass Business Lending Risk Committee (RMBLRC), the Corporate Investment Bank Default Committee (CIBDC) and the Operational Risk Steering Committee (ORSC). The Executive Board, the Board of Directors' Audit Committee, the Board of Directors' Staff and Remuneration Committee and the Board of Directors' Risk Committee are accountable to the Board of Directors, while the risk management committees are subordinate to the Executive Board.

Corporate governance structure

The Board of Directors is generally responsible for organising the risk and capital management system; overseeing implementation and efficiency of ICAAP by examining regular ICAAP reports, capital planning and stress testing reports and auditor reports; defining the strategic plan; approving the Bank's risk and capital management strategy, risk appetite, procedure for

management of most significant risks, procedure for applying the Bank's risk management methods and risk measurement models, and other documents within its powers; and overseeing the proper use of the Bank's rating systems.

The Board of Directors' Audit Committee is responsible for assessing the efficiency of existing risk management and internal control procedures, overseeing the reliability of the control management and formulating proposals for improving controls to be considered by the Board of Directors.

The Board of Directors' Staff and Remuneration Committee is responsible for the preliminary examination, analysis and formulation of proposals for the Board of Directors on the remuneration and recruitment of employees essential to the risk management system, and for the development and improvement of the Bank's internal remuneration documents.

The Board of Directors' Risk Committee is responsible for examining, analysing and preparing proposals for the Board of Directors on developing the Bank's risk and capital management strategy, establishing the Bank's risk appetite, overseeing the risk management system, developing the Bank's risk culture, applying the model of three lines of defence, and developing the Bank's risk management methods and risk measurement models to calculate the capital adequacy ratio.

The Executive Board defines the Bank's risk management policy based on the risk and capital management strategy, approves risk and capital management and stress testing procedures, is responsible for monitoring measures to reduce risk based on the optimal balance of the Bank's goals, the return on capital required by shareholders and the Bank's risk appetite, provides for compliance with ICAAP and the maintenance of capital adequacy at above the minimal level, and examines ICAAP reports.

The Chief Credit Committee (CCC) considers and amends the credit policy principles before it is approved by the Executive Board, is responsible for establishing limits and assuming non-retail credit risk within the powers established by the Executive Board and oversees the consistency of the loan portfolio quality with the approved policy.

The Non-Retail Credit Committee (NRCC) establishes limits for non-retail customers for particular types of transactions within the limits established for NRCC.

The Corporate Investment Bank's Default Committee (CIBDC) was established in accordance with the Bank of Russia Regulation No. 483-P "On the Procedure for Credit Risk Calculation Based on Internal Ratings" of 6 August 2015 to consider the issues of default recognition according to the established process set forth in internal document ("Default Determination and Recovery for Non-Retail Borrowers").

The Retail and Mass Business Risk Committee (RMBLRC) considers changes to the retail lending policy and mass business lending policy before they are approved by the Executive Board, approves the principles for lending decision-making in retail and mass business lending, takes decisions related to launching/extending pilot/new projects bearing credit risk, reviews the results of pilot projects and discusses their scaleup, and takes decisions on assigning rights of claim under loan commitments of retail borrowers to third parties.

The Asset and Liability Management Committee (ALMC) is responsible for managing market risk, interest-rate risk in the banking book, and liquidity risk, optimising the Bank's balance structure to maximise profitability with limited risk, establishing aggregated limits on market risk, interest-rate risk in the banking book and liquidity risk, and approving risk assessment models and methods.

The Operational Risk Steering Committee (ORSC) ensures the management of operational risks, makes a preliminary examination of operational risk appetite, considers assumption of operational risks within the limits established by the Executive Board, monitors the operational risk level and approves measures, procedures and techniques for identifying, assessing, monitoring, controlling, preventing and minimising operational risks.

The Data Quality Management Commission (DQMC) assesses the efficiency of the data quality management system, takes decisions on launching new initiatives to improve data quality, approves documents regulating the data quality management processes and reviews the results of data quality monitoring.

The Risk Management Department is subordinate to the chief risk officer and is responsible for operating the risk management system and for general risk management, ensuring the application of uniform principles and methods for identifying, assessing, and managing risk, notifying the Bank's management, analysing the efficiency of key control procedures and monitoring key controls. The Risk Management Department, operating in accordance with the regulation on the Risk Management Department, includes the following units: the Integrated Risk Management Directorate (the Validation Division, the Integrated Risk Management Division, and the Risk Reporting and Control Department), the Corporate, Market and Counterparty Risks Directorate (the Division for Analysis of Sectoral and Regional Projects Risks, the Division for Analysis of Sectoral and Moscow Region Projects Risks, the Counterparties Division, the Methodology, Modelling and Risk Reporting Division, the Market Risk Management Division), the Retail and Small Business Risk Directorate (the RB Portfolio Analysis Department, Lending Development and Support Department, the SME Risk Management Department, the Department for Statistical Analysis, Predictive Modelling and Forecasting), and the Operational Risk Department.

The chief risk officer is responsible for organising and overseeing the Bank's risk management process, designing and developing the Bank's risk management system, overseeing the existing risk profile and assessing the adequacy of risk management resources in consideration of the complexity, interconnection and scope of the Bank's risks, risk appetite and strategy.

Retail credit risk management is the responsibility of the Retail and Small Business Directorate and Business Development Committee (BDC). Non-retail credit risk management is the responsibility of the Corporate, Market and Counterparty Risks Directorate (the Methodology, Modelling and Risk Reporting Division; the Division for Analysis of Sectoral and Regional Projects Risks, Division for Analysis of Sectoral and Moscow Region Projects Risks; the Counterparties Division) and Non-Retail Credit Committees (CCC/NRCC), with the CCC having the upper hand. Market risk management is the responsibility of the Corporate, Market Risk and Counterparties Risks Directorate (the Market Risk Management Division), Treasury and Asset and Liability Management Committee (ALMC). Operational risk management is carried out via the Operational Risks Division and the Operational Risk Steering Committee (ORSC). Risk control (middle office) functions are also performed by the Risk Management Department (within the Risk Reporting and

Control Department). Liquidity and interest-rate risk management and control are the responsibility of the Treasury, Risk Management Department and ALMC.

The Corporate Debt Collection Department (CDCD) is fully independent from the Risk Management Department; it formulates proposals on debt administration, including collection strategies, and offers and presents solutions for the CCC's consideration on collecting corporate distressed debts. The CDCD implements the approved strategy. It is overseen by the Deputy Chairman of the Executive Board and is accountable to the CCC. The CCC takes decisions on recognising debts as bad.

Retail distressed debt management (development of decision rules) is the responsibility of the Retail and Small Business Directorate. The Client Collection Division of the Distressed Debt Collection Department is responsible for measures aimed at resuming debt servicing and collecting loan past due amounts. The Retail Service Division (and, as appropriate, the Distressed Debt Collection Department) identify transactions to be written off as bad debts. The default criteria for retail borrowers are set forth in the default and recovery procedure for retail borrowers of AO ALFA-BANK.

In accordance with the powers determined in the Bank's constituent and internal documents, internal control is the responsibility of:

- Management bodies (General Meeting of Shareholders, Board of Directors, Executive Board, Chairman of the Executive Board);
- Collective bodies established by decision of the Board of Directors and Executive Board;
- Heads (deputy heads) of operating divisions established within the organisational structure of the Bank in accordance with decisions of the Executive Board and orders of the Chairman of the Executive Board;
- Chief Accountant (Deputy Chief Accountants);
- Units and employees exercising internal control in accordance with the powers determined by internal documents of the Bank, including:
- Internal Audit Service and Internal Control Service, the Bank's business units operating pursuant to the charter, regulation on the internal audit service and Chapter 4 and 4.1, respectively, of the Bank of Russia Regulation No. 242-P "On Organisation of Internal Control in Credit Institutions and Banking Groups" of 16 December 2003;
- Responsible executive (business unit) for countering money laundering, financing of terrorism and the spread of weapons of mass destruction, designated (established) and operating pursuant to Article 7.2 of Federal Law No. 115-FZ "On Countering the Legalisation (Laundering) of Criminally Obtained Incomes and Financing of Terrorism" of 7 August 2001;
- Stock market professional controller: responsible executive designated to control the compliance of the Bank's professional activity on the stock market, with Russian stock market laws, including regulations of the Bank of Russia, regulations of the federal stock market executive authority, Russian laws on protection of rights and legal interests of stock market investors, Russian advertising laws, and internal documents related to professional activity on the stock market;
- Business unit in charge of control of compliance with the Federal Law No. 224-FZ "On Countering Illegal Use of Insider Information and Market Manipulation and on Amending Certain Legislative Acts of the Russian Federation" of 27 July 2010;
- Other units and employees acting within their office duties and powers established by internal documents of the Bank.

For the purposes of systematically conducting an independent assessment of the reliability and efficiency of the Bank's risk management and internal control system and corporate governance practice, the Bank conducts an internal audit, which is the responsibility of the Internal Audit Department accountable to the Board of Directors.

The Internal Audit Department operates in accordance with para. 4 of Central Bank Regulation No. 242-P, Russian law, Bank of Russia regulations, accepted internal audit standards set by the International Standards for the Professional Practice of Internal Auditing and the Ethics Code of the Institute of Internal Auditors. The Department operates on the principles of independence, objectivity, professional competence, ongoing activity and impartiality. The Head of the Internal Audit Department is appointed, dismissed and reassigned to other duties by the Chairman of the Executive Board, pursuant to decisions of the Board of Directors. The Board of Directors approves action plans and performance review reports of the Internal Audit Department.

Administratively, the Internal Audit Department is subordinated to the Chairman of the Executive Board, who is responsible for allocating the necessary funds within the approved budget of the Internal Audit Department, reviewing the performance reports of the Internal Audit Department and overseeing administration of the Internal Audit Department's processes.

The Internal Control Directorate is responsible for identifying, accounting and monitoring of regular (compliance) risk in the Bank, i.e., the risk of incurring losses due to non-compliance with Russian law and internal documents, and imposition of sanctions and/or other disciplinary measures by regulatory authorities. A detailed description of internal control functions is presented in the regulation on the Internal Control Directorate.

Information disclosure and information policy of the Bank

The Bank discloses information about its business in accordance with Russian law based on the principles of reliability, regularity, efficiency and the balance between the Bank's openness and safeguarding of its legal interests.

To ensure the transparency, timeliness and completeness of information disclosure, easy shareholder access to the Bank's documents, and designation of employees responsible for information disclosure, the Bank has the following package of documents that regulate the information policy:

- Regulation on information policy;
- Regulation on interaction of business units in the information disclosure of AO ALFA-BANK as an issuer of issue-grade securities;
- List of insider information of AO ALFA-BANK;
- Procedure and timing for disclosure of insider information (particular types of insider information) by the Bank as an issuer, which is not included in the list of insider information approved by the Bank of Russia;
- Regulation on interaction of business units in the disclosure of insider information of AO ALFA-BANK;
- Regulation on commercial/banking secrets, and the Bank's proprietary information;
- List of information that is classified as commercial/banking secrets and the Bank's proprietary information consistent with relevant legislation.

In December 2019, the Bank approved the regulation on information policy, which sets forth the goals, objectives and principles of the Bank's information policy, procedure for information disclosure to shareholders and members of the Board of Directors, investors and other stakeholders, and the procedure for using and protecting confidential information.

The Bank discloses information on website alfabank.ru, and on the webpage provided by a designated disseminator of [stock market information http://www.e-disclosure.ru/portal/company.aspx?id=1389](http://www.e-disclosure.ru/portal/company.aspx?id=1389).

The Bank discloses information on the risks of the Alfa Banking Group in compliance with Federal Law No. 395-1 "On Banks and Banking Activity" of 2 December 1990, Bank of Russia Order No. 4481-U "On Rules and Time of Information Disclosure by Parent Credit Institutions of Banking Groups on Accepted Risks, Risk Assessment Procedures, Risk and Capital Management", and on Financial Instruments in the Banking Group Equity Capital Calculation" of 7 August 2017, and Alfa Banking Group's regulation on consolidated disclosure of risk information.

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

Material corporate actions

As provided for by the Corporate Governance Code, the Bank qualifies the following as material corporate actions:

- Reorganisation of the Bank;
- Changes (reduction or increase) of the share capital of the Bank;
- Material changes to the Bank's charter;
- Major transactions;
- Listing and delisting of the Bank's shares.

Segregation of duties of the Bank's management bodies in decision-making on material corporate actions is a key element of the corporate governance system aimed at protecting the legal interests and rights of the Bank's shareholders and securing the Bank's assets.

The Bank's management bodies ensure that the Bank's shareholders participate in decision-making on material corporate actions in accordance with Russian law and the Bank's charter.

The Bank has established a system to coordinate its business units in material corporate actions. The Bank's business units take all reasonable actions to ensure compliance with the transaction procedure and duly present transactions for approval by the relevant management bodies of the Bank.

Information on material corporate actions in the course of the Bank's operations is disclosed as provided for by Russian law.

As part of assessing the internal control system, the Internal Audit Service may conduct spot checks of compliance with the established decision-making procedures for transactions defined as material corporate actions.

Appendix

Report on Payment of Stated (Accrued) Dividends on the Bank Shares

On 26 June 2019, the Annual Shareholders General Meeting (Minutes No.02-2019 of 26 June 2019) resolved to abstain from paying dividends on the Bank's shares based on the 2018 reporting year results.

List of transactions recognised as major transactions under the Federal Law on Joint-Stock Companies and other transactions to which the major transaction approval procedure applies pursuant to the Bank's Charter effected by the Bank in the reporting year, with indication for each transaction of its material terms and the management body of the joint-stock company that made a decision on its approval

In 2019, no major transactions were made by AO ALFA-BANK.

List of transactions recognised as interested party transactions under the Federal Law on Joint-Stock Companies and required to be approved by the authorised management body of the joint-stock company as provided for by Chapter XI of the Federal Law on Joint-Stock Companies effected by the joint-stock company in the reporting year, with indication for each transaction of the interested person (persons), material terms and the management body of the joint-stock company that made a decision on its approval

The Bank's charter (para. 1.17.) establishes that, in accordance with Article 83.8 of the Federal Law on Joint-Stock Companies, as amended by the Federal Law No. 343-FZ of 3 July 2016, effective from 1 January 2017, Chapter XI "Interest in Conclusion of a Transaction by the Joint Stock Company" of the Federal Law on Joint-Stock Companies shall not apply to the Bank.

Members of the Board of Directors as at 31 December 2019

1. Petr Aven, Chairman of the Board of Directors
2. Oleg Sysuev, First Deputy Chairman of the Board of Directors
3. Andrew John Baxter, Member of the Board of Directors
4. Vladimir Verkhoshinskiy, Member of the Board of Directors
5. Andrei Kosogov, Member of the Board of Directors
6. Artem Leontev, Member of the Board of Directors
7. Alexey Marey, Member of the Board of Directors
8. Mikhail Fridman, Member of the Board of Directors
9. Oskar Hartmann, Member of the Board of Directors

Information on changes in the Board of Directors in 2019:

- No changes in the Board of Directors were made in 2019.

On 26 June 2019, the Annual Shareholders General Meeting of AO ALFA-BANK (Minutes No. 02-2019 of 26 June 2018) elected the following members of the Board of Directors (without changes):

1. Petr Aven, Chairman of the Board of Directors
2. Oleg Sysuev, First Deputy Chairman of the Board of Directors
3. Andrew John Baxter, Member of the Board of Directors
4. Vladimir Verkhoshinskiy, Member of the Board of Directors
5. Andrei Kosogov, Member of the Board of Directors
6. Artem Leontev, Member of the Board of Directors
7. Alexey Marey, Member of the Board of Directors
8. Mikhail Fridman, Member of the Board of Directors
9. Oskar Hartmann, Member of the Board of Directors

Information on Members of the Board of Directors, including background profile and shareholding in AO ALFA-BANK

1. Petr Aven

Year of birth: 1955

Education:

- **Graduated from:** Lomonosov Moscow State University
- **Graduated in:** 1977
- **Qualification:** Mathematical Economist
- **Major:** Economic Cybernetics
- **Academic degree:** PhD (Economics)
- **Conferred in:** 1980

Principal place of employment: Member of corporate management bodies, no principal place of employment under employment agreement

2. Oleg Sysuev

Year of birth: 1953

Education:

- **Graduated from:** Korolev Kuibyshev Aviation Institute
- **Graduated in:** 1976
- **Qualification:** Mechanical Engineer
- **Major:** Aircraft and engine operation

Principal place of employment: President, AO ALFA-BANK

3. Andrew John Baxter

Year of birth: 1966

Education:

- **Graduated from:** University of the Witwatersrand, Johannesburg, RSA
- **Graduated in:** 1988
- **Degree:** Bachelor's Degree in Accounting
- **Graduated from:** University of the Witwatersrand, Johannesburg, RSA
- **Graduated in:** 1987
- **Degree:** Bachelor's Degree in Commerce
- **Graduated from:** Institute of Chartered Accountants, South Africa
- **Graduated in:** 1991
- **Qualification:** Chartered Accountant (South Africa)

Principal place of employment: Member of corporate management bodies, no principal place of employment under employment agreement

4. Vladimir Verkhoshinskiy

Year of birth: 1981

Education:

- **Graduated from:** Finance Academy under the Government of the Russian Federation
- **Graduated in:** 2003
- **Qualification:** Economist
- **Major:** Finance and Credit

Additional professional education:

- **Graduated from:** Stanford University
- **Degree:** Master of Business Administration
- **Conferred:** 15 June 2008

Principal place of employment: First Deputy Chairman of the Executive Board, Member of the Executive Board, Chief Executive Officer, AO ALFA-BANK

5. Andrei Kosogov

Year of birth: 1961

Education:

- **Graduated from:** Moscow Power Engineering Institute
- **Graduated in:** 1987
- **Qualification:** Thermophysics Engineer
- **Major:** Thermophysics

Principal place of employment: Advisor, AO AB Holding

6. Artem Leontev

Year of birth: 1974

Education:

- **Graduated from:** Perm State University
- **Graduated in:** 1995
- **Qualification:** Economist
- **Major:** Accounting and Audit
- **Graduated from:** Perm State University
- **Graduated in:** 1998
- **Qualification:** Lawyer
- **Major:** Jurisprudence

Additional professional education:

- **Brighton University (1996):** BA (Hons) Business Administration
- **University of Durham (1997):** Master of Business Administration

Principal place of employment: Member of corporate management bodies, no principal place of employment under employment agreement

7. Alexey Marey

Year of birth: 1977

Education:

- **Graduated from:** Moscow State Aviation Institute (Technical University)
- **Graduated in:** 1999
- **Major:** Economics and Company Management
- **Qualification:** Engineer/Economist with foreign language skills

Principal place of employment: Member of corporate management bodies, no principal place of employment under employment agreement

8. Mikhail Fridman

Year of birth: 1964

Education:

- **Graduated from:** Moscow Institute of Steel and Alloys
- **Graduated in:** 1986
- **Major:** Non-Ferrous Metallurgy
- **Qualification:** Engineer of Metallurgy

Principal place of employment: Member of corporate management bodies, no principal place of employment under employment agreement

9. Oskar Hartmann

Year of birth: 1982

Education:

- **Graduated from:** Otto Beisheim School of Management (WHU)
- **Graduated in:** 2007
- **Qualification:** Economics and Trade
- **Majoring in:** International Management, International Economics
- **Graduated from:** University of Hawaii
- **Graduated in:** 2008
- **Qualification:** Economist
- **Major:** Entrepreneurship (MBA)

Principal place of employment: General Director, OOO Polyanka

Information on shareholding in AO ALFA-BANK

Members of the Board of Directors do not own the Bank's shares.

In 2019, members of the Board of Directors made no Bank share acquisition or disposal transactions.

Members of the Executive Board as at 31 December 2019

1. Andrey Sokolov, Chairman of the Executive Board
2. Vladimir Verkhoshinskiy
3. Alexey Tchoukhlov
4. Mikhail Grishin
5. Michael Boris Tuch
6. Andrew Chulack
7. Denis Osin
8. Vladimir Voeykov
9. Ivan Pyatkov
10. Sergei Poliakov

Information on changes in the Executive Board in 2019

- Vladimir Voeykov and Ivan Pyatkov elected to the Executive Board from 19 February 2019
- Michael Boris Tuch elected to the Executive Board from 10 April 2019
- S. Shevchenko elected to the Executive Board from 24 April 2019
- M. Pershin removed from the Executive Board from 2 May 2019
- Andrew Chulack elected to the Executive Board from 27 May 2019
- Sergei Poliakov elected to the Executive Board from 26 August 2019
- S. Shevchenko removed from the Executive Board from 13 November 2019

Information on members of the Executive Board, including background profile and shareholding in AO ALFA-BANK

1. Andrey Sokolov

Year of birth: 1955

Education: Tertiary

- **Graduated from:** Lomonosov Moscow State University
- **Graduated in:** 1977
- **Major:** Data Science
- **Qualification:** Mathematician
- **Graduated from:** Maurice Thorez Moscow State Pedagogical Institute of Foreign Languages
- **Graduated in:** 1981
- **Major:** English Language

Principal place of employment: Chairman of the Executive Board, AO ALFA-BANK

2. Mikhail Grishin

Year of birth: 1970

Education: Tertiary

- **Graduated from:** Moscow Institute of Radio Engineering, Electronics and Automation
- **Graduated in:** 1993
- **Major:** Electronic Data Processing Machines
- **Qualification:** Systems Engineer
- **Graduated from:** Moscow State Law Academy
- **Graduated in:** 1997
- **Qualification:** Lawyer

Principal place of employment: Deputy Chairman of the Executive Board, Legal Affairs and Distressed Asset Management Director, Member of the Executive Board, AO ALFA-BANK

3. Alexey Tchoukhlov

Year of birth: 1975

Education: Tertiary

- **Graduated from:** Paris Institute of Political Studies, Paris, France
- **Graduated in:** 1999
- **Degree:** Bachelor in Economics

Principal place of employment: Deputy Chairman of the Executive Board, Chief Financial Officer, Member of the Executive Board, AO ALFA-BANK

4. Vladimir Verkhoshinskiy

Year of birth: 1981

Education: Tertiary

- **Graduated from:** Finance Academy under the Government of the Russian Federation
- **Graduated in:** 2003
- **Qualification:** Economist
- **Major:** Finance and Credit

Additional professional education:

- **Graduated from:** Stanford University
- **Degree:** Master of Business Administration

- Conferred: 15 June 2008

Principal place of employment: First Deputy Chairman of the Executive Board, Member of the Executive Board, Chief Executive Officer, AO ALFA-BANK.

5. Andrew Chulack

Year of birth: 1970

Education: Tertiary

- **Graduated from:** Moscow Institute of Physics and Technology
- **Graduated in:** 1993
- **Qualification:** Engineer Physicist
- **Major:** Applied Mathematics and Physics

Principal place of employment: Deputy Chairman of the Executive Board, Corporate and Investment Bank Director, Member of the Executive Board, AO ALFA-BANK.

6. Michael Tuch

Year of birth: 1975

Education: Tertiary

- **Graduated from:** University of Maryland
- **Graduated in:** 1998
- **Degree:** Bachelor in Finance
- **Major:** Finance

Principal place of employment: Deputy Chairman of the Executive Board, Retail Business Director, Member of the Executive Board, AO ALFA-BANK.

7. Vladimir Voeykov

Year of birth: 1969

Education: Tertiary

- **Graduated from:** Khabarovsk State Academy of Economics and Law
- **Graduated in:** 1995
- **Qualification:** Economist
- **Major:** Finance and Credit

Principal place of employment: Medium Business Director, Member of the Executive Board, AO ALFA-BANK.

8. Denis Osin

Year of birth: 1972

Education: Tertiary

- **Graduated from:** Moscow State University of Printing Arts
- **Graduated in:** 1999
- **Degree:** Bachelor in Economics

Principal place of employment: Small and Micro Business Director, Member of the Executive Board, AO ALFA-BANK.

9. Sergey Poliakoff

Year of birth: 1960

Education: Tertiary

- **Graduated from:** New York University
- **Graduated in:** 1991
- **Degree:** Master of Science

Principal place of employment: Chief Information Officer, Member of the Executive Board, AO ALFA-BANK.

10. Ivan Pyatkov

Year of birth: 1977

Education: Tertiary

- **Graduated from:** Moscow State University of Commerce
- **Graduated in:** 1999
- **Qualification:** Economist
- **Major:** Accounting and Audit

Professional retraining:

- **Graduated from:** International Institute of Management LINK
- **Program:** Management
- **Graduated on:** 17 June 2002

Principal place of employment: Digital Business Director, Member of the Executive Board, AO ALFA-BANK.

Information on shareholding in AO ALFA-BANK

Members of the Executive Board and Chairman of the Executive Board do not own any shares in the Bank.

In 2019, members of the Executive Board made no acquisition or disposal transactions of Bank shares.

Key provisions of the Bank's remuneration and/or reimbursement policies, and information on each of the Bank's management bodies (except for the Chairman of the Executive Board) with indication of all types of remuneration, including salary of the Bank's management bodies members who are its employees, including those holding more than one office; bonuses, commission, remuneration separately paid for working in the relevant management body, other types of remuneration paid by the Bank in the reporting year, indicating expenses related to the performance of functions of members of the Bank's management bodies reimbursed by the Bank in the reporting year

The Board of Directors approved the regulation on the terms of remuneration and reimbursement of expenses related to the performance of duties of members of the Board of Directors (Minutes of the Board of Directors' Meetings No. 13-2017 of 13 September 2017), which sets forth the general principles, criteria and procedure for paying members of the Bank's Board of Directors remuneration and reimbursement of expenses related to the performance of their duties.

In December 2019, the Board of Directors approved the regulation on the terms of remuneration and reimbursement of expenses related to the performance of functions of members of the Board of Directors, proposed that the General Meeting of Shareholders approve it, and, following its approval, declared void the regulation on remuneration and reimbursement of expenses related to the performance of duties of members of the Board of Directors approved by the Bank's Board of Directors (Minutes No. 13-2017 of 13 September 2017).

The Regulation on the terms of remuneration and reimbursement of expenses related to the performance of functions of the Members of the Board of Directors was approved at the General Meeting of Shareholders in January 2020.

The Regulation is a core document used at the General Meeting of Shareholders to take decisions on payments and compensation to members of the Board of Directors, in accordance with Article 64.2 of the Federal Law on Joint-Stock Companies.

The remuneration system at AO ALFA-BANK is based on the Bank's strategic plan, performance standards and corporate values, Russian employment law, and Bank of Russia Order No. 154-I "On Assessment of the Remuneration System in Credit Institutions and Giving Credit Institutions an Order to Rectify Violations in their Remuneration Systems" of 17 June 2014 ("Order No. 154-I"). On 16 March 2015, the Board of Directors (Minutes of the Board of Directors' Meeting No. 02-2015 of 16 March 2015) approved the documents regulating the terms and procedure for remuneration of employees at AO ALFA-BANK:

- Personnel policy of AO ALFA-BANK (new version approved by the Board of Directors, Minutes No. 11-2018 of 22 August 2018)
- Remuneration policy of AO ALFA-BANK (new version approved by the Board of Directors, Minutes No. 22-2015 of 28 December 2015, No. 13-2016 of 6 October 2016 and No. 11-2018 of 22 August 2018, respectively).

According to Alfa-Bank's personnel and remuneration policies, the remuneration of the Bank's employees, as a rule, includes set (fixed) and variable (bonuses) remuneration.

Fixed remuneration for the Chairman of the Executive Board and members of the Executive Board is determined by the Board of Directors upon the recommendation of the Staff and Remuneration Committee.

Bonuses for the Chairman of the Executive Board and members of the Executive Board depend on their individual results in achieving their goals and objectives for the year, the performance of the units (functions) that they supervise and of the Bank generally, and risk exposure indicators. The Bank's internal regulation on bonus payments to the Bank's Employees, in accordance with the Ordinance No. 154-I, sets the requirements to the proportion between the fixed and variable components of remuneration of the Chairman of the Executive Board and members of the Executive Board Bank and to bonus payment procedure — payment of 40% of the bonuses shall be deferred (spread) for three calendar years. Payment of the deferred portion of the bonus shall be subject to the Bank's meeting the accepted risks targets in the relevant reporting period.

The total remuneration paid to members of the Executive Board of the Bank in 2019 was RUB 2,057,969,291.05.

The total remuneration paid to members of the Board of Directors of the Bank in 2019 was RUB 192,597,447.83.

Information on each type of energy resource used by the company in the reporting year

The principal types of energy resources used by the Bank are electricity, heat energy and petroleum, oil and lubricants (POL).

The Bank places special emphasis on energy efficiency and sustainable energy sources. In times of economic instability and subsequent economic recovery, the rational use of energy is even more important.

In 2019, total POL expenses for all the Bank's business units were RUB 37.6m, including RUB 14.7m for the head office and other offices in Moscow and Moscow Region.

Electricity costs are not often singled out from total payments for utility services. Another common practice is the reimbursement of utilities expenses, including electricity costs, under lease agreements. All the above precludes the presentation of detailed information on electricity and heating costs at the Bank's offices in Russia.

Electricity and heating costs account for a considerable portion of the Bank's total utilities expenses. In 2019, electricity costs for the offices in Moscow, Ulyanovsk and Barnaul were RUB 178m, while heating and tap water costs stood at RUB 23m.

No types of energy resources, other than those indicated above, were used or consumed in the reporting year.

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