IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the "**Prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS ("**QIBS**") IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") PROVIDED BY RULE 144A THAT ARE ALSO QUALIFIED PURCHASERS ("**QPS**"), AS DEFINED IN SECTION 2(a)(51)(A) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED OR (2) OUTSIDE OF THE UNITED STATES AND NOT A U.S. PERSON IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**").

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities, an investor must be either (1) a QIB that is also a QP or (2) a non-U.S. person (as defined in Regulation S) outside the United States who is not acting for the account or benefit of a U.S. person. The Prospectus is being sent at your request and by accepting the e-mail and accessing the Prospectus, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs that are also QPs or (b) you and the electronic mail address that you gave us and to which this e-mail has been delivered are not located in the United States and you are not U.S. persons, and (2) you consent to delivery of such Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers (as defined in the Prospectus), or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of Alfa Bond Issuance plc in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes (as defined in the Prospectus) in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained

in the Prospectus. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to Alfa Bond Issuance plc.

Information contained in this Prospectus is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in Russia, and does not constitute an advertisement or offering of any securities in Russia. The securities referred to in this Prospectus have not been and will not be registered in Russia or admitted to public placement and/or public circulation in Russia and are not intended for "placement" or "circulation" in Russia except as permitted by Russian law.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers or any person who controls them, nor any director, officer, employee or agent of any of them or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

U.S.$1,000,000,000 7.75% Loan Participation Notes due 2021

issued by Alfa Bond Issuance plc on a limited recourse basis for the sole purpose of funding a loan to OPEN JOINT-STOCK COMPANY "ALFA-BANK"

Issue price: 100%

Alfa Bond Issuance plc (the "**Issuer**"), a company organised and existing as a public limited company under the laws of Ireland, is issuing an aggregate principal amount of U.S.$1,000,000,000 7.75% loan participation notes due 2021 (the "**Notes**") for the sole purpose of financing a loan (the "**Loan**") to OPEN JOINT-STOCK COMPANY "ALFA-BANK" ("**Alfa Bank**" or the "**Borrower**") pursuant to a loan agreement (the "**Loan Agreement**") dated 21 April 2011 between the Issuer, as lender, and the Borrower. The Loan will bear interest of 7.75% per annum. ABH Financial Limited, a limited liability company registered under the laws of the Republic of Cyprus, under No. 284510 ("**ABH Financial**") has agreed to irrevocably and unconditionally guarantee (the "**ABH Financial Guarantee**") the payment and other obligations of the Borrower under the Loan Agreement pursuant to a deed of guarantee (the "**ABH Financial Deed of Guarantee**") dated 21 April 2011 between the Issuer and ABH Financial.

The Notes are secured limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make such payment will constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, excluding amounts paid in respect of the Reserved Rights (as defined in "*Terms and Conditions of the Notes*"). The Issuer will have no other financial obligation under the Notes. The Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of Alfa Bank and ABH Financial in respect of the financial servicing of the Notes.

Interest on the Notes will be payable at an annual rate equal to 7.75%. Subject to receipt of the funds necessary therefor from the Borrower and/or ABH Financial, as the case may be, the Issuer will make interest payments on the Notes in arrear on 28 April and 28 October in each year, commencing on 28 October 2011, as described under "*Terms and Conditions of the Notes—Interest*". Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 28 April 2021.

Except as set forth herein under "Taxation," payments in respect of the Notes (and the Loan and the ABH Financial Guarantee) will be made without any deduction or withholding on account of taxes. As set forth more fully in the Loan Agreement, Alfa Bank may prepay the Loan at its principal amount, in whole but not in part, together with accrued interest, if (a) Alfa Bank or the Issuer must deduct or withhold certain taxes from payments they make in respect of the Loan or the Notes, respectively; (b) it becomes illegal for the Notes or the Loan to remain outstanding; or (c) upon exercise of a Change of Control Put Event (as defined in "*Terms and Conditions of the Notes*"). Upon such occurrence, the Issuer will, subject to the receipt of the relevant funds from Alfa Bank and/or ABH Financial, as the case may be, prepay the principal amount of all Notes outstanding, together with accrued interest.

Except as otherwise expressly provided in this prospectus (the "**Prospectus**") and in the trust deed (the "**Trust Deed**") dated 28 April 2011 between the Issuer and BNY Mellon Corporate Trustee Services Limited, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the ABH Financial Deed of Guarantee, or in any rights that the Issuer may receive by way of assignment in respect of the Loan or the ABH Financial Guarantee, exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will be entitled to enforce any provisions of the Loan Agreement or the ABH Financial Deed of Guarantee or have direct recourse to the Borrower and ABH Financial.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" ON PAGE 23.

Information contained in this Prospectus is not an offer, or an invitation to make offers, sell, purchase, exchange or transfer any securities in Russia, and does not constitute an advertisement or offering of any securities in Russia. The securities referred to in this Prospectus have not been and will not be registered in Russia or admitted to public placement and/or public circulation in Russia and are not intended for "placement" or "circulation" in Russia except as permitted by Russian law.

Application has been made to the Financial Services Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000 as amended (the "**FSMA**") (in such capacity the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Regulated Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2004/3 9/EC (the "**Markets in Financial Instruments Directive**").

The Notes will be in registered form and will be offered and sold in the minimum denomination of U.S.$200,000 or integral multiples of U.S.$1,000 in excess thereof. The Regulation S Notes will initially be represented by a global note (the "**Regulation S Global Note**"), without interest coupons, registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV (Euroclear), and Clearstream Banking, société anonyme (Clearstream, Luxembourg), on or about 28 April 2011. The Rule 144A Notes will initially be represented by a global note (the "**Rule 144A Global Note**" and, together with the Regulation S Global Note, the "**Global Notes**") without interest coupons, registered in the name of a nominee, and deposited with a custodian for, The Depository Trust Company ("**DTC**"). The Global Notes will only be exchangeable for definitive notes ("**Definitive Notes**") in certain limited circumstances as described herein. See "*Summary of the Provisions relating to the Notes in Global Form*".

The credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**") as having been issued by Moody's Investors Service, Inc., Standard & Poor's Credit Market Services Europe Limited and Fitch Ratings CIS Limited upon registration pursuant to the CRA Regulation. Standard & Poor's Credit Market Services Europe Limited and Fitch Ratings CIS Limited are established in the European Union and have applied to be registered under the CRA Regulation, although the result of such applications has not yet been determined. Moody's Investor Service, Inc. is not established in the European Union and has not applied for registration under the CRA.

Joint Lead Managers

Alfa Bank **Goldman Sachs International** **UBS Investment Bank**

The date of the prospectus is 21 April 2011.

Subject to the provisions of the Trust Deed (as defined in "*Terms and Conditions of the Notes*"), the Issuer will charge as security for its payment obligations in respect of the Notes and under the Trust Deed: (a) all its rights to principal, interest and other amounts now or hereafter payable to the Issuer by the Borrower under the Loan Agreement or ABH Financial under the ABH Financial Deed of Guarantee; and (b) its rights to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the Loan Agreement or the ABH Financial Deed of Guarantee; (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account of the Issuer pursuant to the Loan Agreement and the debts represented thereby (including interest from time to time earned on such Account, if any), in each case to BNY Mellon Corporate Trustee Services Limited (the "**Trustee**"), as trustee for the benefit of the holders of the Notes (the "**Noteholders**"), upon the closing of the offering of the Notes. Furthermore, under the terms of the Trust Deed, the Issuer will assign all of its rights under the Loan Agreement and the ABH Financial Deed of Guarantee, except for any Reserved Rights and rights subject to the charge as described above, to the Trustee for the benefit of itself and the Noteholders upon the closing of the offering of the Notes.

THE NOTES, THE LOAN AND THE ABH FINANCIAL GUARANTEE HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S (THE "**REGULATION S NOTES**") AND WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS ("**QIBS**"), AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**"), THAT ARE ALSO QUALIFIED PURCHASERS ("**QPS**"), AS DEFINED IN SECTION 2(a)(51)(A) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"), IN RELIANCE ON THE EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144A (THE "**RULE 144A NOTES**") AND IN RELIANCE ON THE EXEMPTION FROM REGISTRATION UNDER THE INVESTMENT COMPANY ACT PROVIDED BY SECTION 3(c)(7) THEREOF, RESPECTIVELY. PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE NOTES AND THE DISTRIBUTION OF THIS PROSPECTUS, SEE "SUBSCRIPTION AND SALE–SELLING RESTRICTIONS" AND "TRANSFER RESTRICTIONS".

This Prospectus comprises a Prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). In this Prospectus references to the "**Alfa Banking Group**" mean ABH Financial and its subsidiaries taken as a whole.

Copies of the Prospectus will be available from the specified office of the principal paying agent (the "**Principal Paying Agent**"). The Issuer, Alfa Bank and ABH Financial have, pursuant to a subscription agreement dated 21 April 2011 (the "**Subscription Agreement**") and a subscription side letter dated 21 April 2011 (the "**Subscription Side Letter**"), appointed Alfa Bank, Goldman Sachs International and UBS Limited as joint lead managers (the "**Joint Lead Managers**") for the offering of the Notes, and have authorised and requested the Joint Lead Managers to circulate this Prospectus in connection with the Notes. The Issuer, Alfa Bank and ABH Financial have undertaken to the Joint Lead Managers to comply with section 87G of FSMA and the prospectus rules of the UK Listing Authority.

Certain information contained in this Prospectus has been derived from official data published by Russian government agencies and the Central Bank of the Russian Federation (the "**CBR**"), RosStat, the Russian federal, regional and local governments. In addition to government sources, information has also been derived from

publicly available information, including press releases and filings made under various securities laws. Each of Alfa Bank and ABH Financial accepts responsibility for correctly extracting such information from these sources and confirms that such information has been correctly extracted from its sources. However, Alfa Bank and ABH Financial have relied on the accuracy of such information without carrying out an independent verification. The official data published by Russian federal, regional and local governments and the CBR is substantially less complete or researched than those of Western countries. Any discussion of matters related to the Russian Federation in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable. Each of Alfa Bank and ABH Financial confirms that this information has been accurately reproduced and that as far as each of Alfa Bank and ABH Financial is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Neither this Prospectus, nor any other information supplied in connection with the Notes, (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, Alfa Bank and ABH Financial, the Joint Lead Managers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, its own appraisal of the creditworthiness, of the Issuer, Alfa Bank and ABH Financial or the Alfa Banking Group and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment. Neither this Prospectus, nor any other information supplied in connection with the Notes, constitutes an offer or invitation by or on behalf of the Issuer, Alfa Bank and ABH Financial or any of the Joint Lead Managers or the Trustee to any person to subscribe for or to purchase any Notes.

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers or the Trustee as to the accuracy or completeness at any time of this Prospectus or any supplement hereto. No person has been authorised by the Issuer, Alfa Bank and ABH Financial, the Joint Lead Managers or the Trustee to give any information or to make any representation not contained in this Prospectus or any supplement hereto, and, if given or made, such information or representation must not be relied upon as having been authorised.

This Prospectus does not, and is not intended to, constitute or contain an offer or invitation to any person to purchase Notes. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Notes come are required by the Issuer, Alfa Bank and ABH Financial, the Joint Lead Managers and the Trustee to inform themselves about and to observe any such restrictions. In particular, such persons are required to comply with the restrictions on offers or sales of Notes and on distribution of this Prospectus and other information in relation to the Notes set out under "*Subscription and Sale–Selling Restrictions*" below.

None of the Issuer, Alfa Bank and ABH Financial, the Joint Lead Managers or the Trustee makes any comment about the treatment for taxation purposes of payments or receipts in respect of any Notes. Each investor contemplating investing in Notes must seek such tax or other professional advice, as it considers necessary for that purpose.

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Central Bank of Ireland (the **"CBI"**). The Issuer is not and will not be regulated by the CBI as a result of issuing the Notes.

In connection with the issue of Notes, UBS Limited (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a higher level than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the issue date of the Notes and, if begun, may be ended at any time,

but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

THE NOTES, THE LOAN AND THE ABH FINANCIAL GUARANTEE HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Additional Information

Each of the Issuer, Alfa Bank and ABH Financial has agreed that, during any period in which it is not subject to and in compliance with Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, it will provide to each Noteholder and to each prospective purchaser of the Notes (as designated by such Noteholder), upon the request of such Noteholder, any information required to be provided by Rule 144A(d)(4) under the Securities Act.

Forward-looking Statements

Matters discussed in this Prospectus may constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The Private Securities Litigation Reform Act of 1995 provides safe harbour protections for forward-looking statements in order to encourage companies to provide prospective information about their businesses. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

The Issuer, Alfa Bank and ABH Financial desire to take advantage of the safe harbour provisions of the Private Securities Litigation Reform Act of 1995 and are including this cautionary statement in connection with this safe harbour legislation and other relevant law. This Prospectus and any other written or oral statements made by us or on our behalf may include forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. The words "believe," "expect," "anticipate," "intend," "estimate," "forecast," "project," "predict," "plan," "may," "should," "could" and similar expressions identify forward-looking statements. This Prospectus contains certain forward-looking statements in various locations, including, without limitation, under the headings "Risk Factors", "Operating and Financial Review of the Alfa Banking Group", "Description of the Alfa Banking Group" and "Recent Developments". Examples of such forward-looking statements include, but are not limited to:

- statements of Alfa Bank's and ABH Financial's plans, objectives or goals, including those related to their strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by the Issuer, ABH Financial, Alfa Bank or other subsidiaries of ABH Financial from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- political, social and economic risks;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- funding from international organisations and access to the international capital markets;
- technological changes;
- the Alfa Banking Group's rapid growth;
- the effects of international political events on the Alfa Banking Group's businesses; and
- the Alfa Banking Group's success at managing the risks related to the aforementioned factors.

The list of important factors is not exhaustive. When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Alfa Banking Group operates. Such forward-looking statements speak only as at the date on which they are made, and are not subject to any continuing obligations under the listing rules of the regulated market of the London Stock Exchange. Accordingly, Alfa Bank, ABH

Financial and the Issuer do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, except as otherwise required by applicable law or under the listing rules of the London Stock Exchange. Alfa Bank, ABH Financial and the Issuer do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Enforceability of Civil Liabilities in the Russian Federation

The Issuer, Alfa Bank and ABH Financial are legal entities organised under the laws of Ireland, the Russian Federation and the Republic of Cyprus, respectively. Most of the directors and executive officers of any of the Issuer, Alfa Bank or ABH Financial are not residents of the United Kingdom or the United States, and all or a substantial portion of the assets of the Issuer, Alfa Bank and ABH Financial and such persons are located outside the United Kingdom and the United States. As a result, it may not be possible for investors and the Trustee to effect service of process within the United Kingdom or the United States upon any of the Issuer, Alfa Bank and ABH Financial or such persons or to enforce against any of them court judgments obtained in English or U.S. courts. Judgments rendered by a court in any jurisdiction outside Russia will generally be recognised by courts in Russia only if (a) an international treaty exists between Russia and the country where the judgment was rendered providing for the recognition of judgments in civil cases and/or (b) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted and/or (c) on the basis of reciprocity, if courts of the country where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. No such federal law has been passed, and no such treaty exists, between Russia, on the one hand, and the United States or the United Kingdom, on the other hand. While Russian courts have recently recognised and enforced English and Dutch court judgments on grounds of reciprocity, the existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Russian law. For example, a Russian court may refuse to recognise or enforce a foreign judgment if its recognition or enforcement would contradict Russian public policy. Therefore, foreign judgments against Russian subsidiaries or Russian assets may not be enforced or their enforcement may require completion of the complicated procedures specified above. In addition, in the absence of established court practice, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English court judgment on these grounds. Furthermore, Russian courts have limited experience in the enforcement of foreign court judgments.

The Subscription Agreement, the Loan Agreement, the Trust Deed, the ABH Financial Deed of Guarantee and Terms and Conditions of the Notes each provide that any dispute between the parties thereto may be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"), with the seat of such arbitration being in London, England. The United Kingdom and the Russian Federation are parties to the New York Convention on the Enforcement and Recognition of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, an arbitral award from an arbitral tribunal in London, England should generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention, subject to qualifications set out therein and in compliance with applicable Russian legislation. However, it may be difficult to enforce arbitral awards in the Russian Federation due to the relative inexperience of the Russian courts in international commercial transactions and official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors. This could introduce delay and unpredictability into the process of enforcing such awards by Russian courts.

Moreover, in September 2002, the arbitrazh procedural code of the Russian Federation (the "**Arbitrazh Procedural Code**") entered into force. The Arbitrazh Procedural Code established the procedure for Russian courts to refuse to recognise and enforce such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, *inter alia*, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Responsibility Statement

The Issuer, Alfa Bank and ABH Financial accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, Alfa Bank and ABH Financial (which have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

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Presentation of Financial and Other Information

Presentation of Financial Information

The financial information set out in this Prospectus with respect to ABH Financial and the Alfa Banking Group has, except where expressly stated otherwise, and subject to rounding, been derived from the consolidated financial statements of ABH Financial, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**").

The consolidated financial statements of ABH Financial as at and for the years ended 31 December 2010, 2009 and 2008 included in this Prospectus have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors, as stated in their reports appearing herein.

The consolidated financial statements of ABH Financial as at and for the year ended 31 December 2010 (the "**2010 ABH Financial Consolidated Financial Statements**"), together with the independent auditor's report, are set out on pages F-2 through F-95 of this Prospectus. The consolidated financial statements of ABH Financial as at and for the year ended 31 December 2009 (the "**2009 ABH Financial Consolidated Financial Statements**"), together with the independent auditor's report, are set out on pages F-96 through F-191 of this Prospectus. The consolidated financial statements of ABH Financial as at and for the year ended 31 December 2008 (the "**2008 ABH Financial Consolidated Financial Statements**"), together with the independent auditor's report, are set out on pages F-192 through F-282 of this Prospectus. The 2010 ABH Financial Consolidated Financial Statements, 2009 ABH Financial Consolidated Financial Statements and 2008 ABH Financial Consolidated Financial Statements are herein collectively referred to as the "**ABH Financial Consolidated Financial Statements**".

The financial information set out in this Prospectus with respect to Alfa Bank has not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No 1606/2002 and there may be material differences in the financial information of Alfa Bank had Regulation (EC) No 1606/2002 been applied to Alfa Bank's historical financial information.

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them.

Impact of New Accounting Standards and reclassifications

From time to time, ABH Financial adopts new accounting pronouncements and changes presentation of information in its consolidated financial statements. As a result, presentation of some information for the same period or as at the same date may differ in consolidated financial statements from different periods.

Certain new standards and interpretations became effective for ABH Financial from 1 January 2009:

IFRS 8, Operating Segments. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in (i) a reduction of the number of segments as the previously separately reported Corporate Banking and Investment Banking segments have been merged in one segment, and (ii) a different presentation of segment revenues and results as some revenues and expenses were accounted for and allocated differently for the purposes of preparation of the segment information prior to the adoption of IFRS 8.

An operating segment is a component of the Alfa Banking Group that engages in business activities, from which it earns revenues and incurs expenses and for which discrete financial information is available. These operating results are regularly reviewed by the Alfa Banking Group's Chief Operating Decision Maker (**"CODM"**) in order to make decisions about resources to be allocated to the segment and assess its performance. Each of the members of Alfa Bank's Executive Board has been identified as a CODM.

Comparative segment disclosures for the year 2008 have been restated to conform to the presentation in 2009 ABH Financial Consolidated Financial Statements. For the purposes of this Prospectus, the historical financial data in respect of segments for 2008 was derived from the 2009 ABH Financial Consolidated Financial Statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards.

The above amendments did not have an impact on the 2009 ABH Financial Consolidated Financial Statements except for:

- *IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7).* Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are recognised as revenue. The rent and proceeds from sale have to be classified as cash flows from operating activities. ABH Financial amended its accounting policies accordingly.

- *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.* The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs. The amendment applies prospectively to government loans received in periods beginning on or after 1 January 2009.

- *IAS 40, Investment Property (and consequential amendments to IAS 16).* Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. ABH Financial applied the amendment prospectively from 1 January 2009.

Adoption of IAS 1, Presentation of Financial Statements, revised in September 2007 and effective for annual periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income, which includes all non-owner changes in equity, such as the revaluation of available for sale financial assets. Therefore, to ensure consistency of presentation of the financial information, for the purpose of this Prospectus the financial information for 2008 was extracted from the 2009 ABH Financial Consolidated Financial Statements. The revised IAS 1 had an impact on the presentation of ABH Financial consolidated financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The enhanced disclosures are included in the 2009 and 2010 ABH Financial Consolidated Financial Statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the 2009 ABH Financial Consolidated Financial Statements.

Certain new standards and interpretations became effective for ABH Financial from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010).

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010).

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in a number of standards and interpretations.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the 2010 ABH Financial Consolidated Financial Statements. More detailed information on new accounting pronouncements and their impact on the ABH Financial Consolidated Financial Statements is disclosed in the Notes to the ABH Financial Consolidated Financial Statements included elsewhere in this Prospectus.

Since 2009 gains less losses arising from interest-based derivatives are reflected separately in the consolidated statement of comprehensive income. Previously they were included in gains less losses arising from trading securities or from foreign currencies and precious metals, depending on the instrument. For the purposes of this Prospectus, the respective financial information for 2008 was extracted from the 2009 ABH Financial Consolidated Financial Statements.

Documents Incorporated by Reference

This Prospectus should be read and construed in conjunction with the audited financial statements of the Issuer as of and for the periods ended 31 December 2010 and 2009 together, in each case, with the audit report thereon which have been previously published or are published simultaneously with this Prospectus and which have been approved by the Financial Services Authority or filed with it. Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews/.

Currency

In this Prospectus, the following currency terms are used:

"**U.S. dollar**" or "**U.S.$**" means the lawful currency of the United States of America;

"**£**" means the lawful currency of the United Kingdom;

"**Rouble**" or "**RUR**" means the lawful currency of the Russian Federation; and

"**Euro**", "**EUR**" or "**€**" means the lawful currency of participating member states of the European Union, as contemplated by the Treaty establishing the European Community, as amended.

Average Balances, Average Interest Rates and Effective Interest Rates

This Prospectus includes information on the average balances of interest-earning assets and interest bearing liabilities of ABH Financial for the years ended 31 December 2010, 2009 and 2008 as well as the average interest rate of interest income or expense for such assets and liabilities. The average balances for interest-earning assets and interest-bearing liabilities are determined as the average of opening, mid-year and closing balances for the years ended 2010, 2009 and 2008. These average balances would likely be different if alternative frequent averaging methods were used and such differences could be material. The average interest rates disclosed in this Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable year. Average interest rates are distinct from the effective interest rates presented in the ABH Financial Consolidated Financial Statements and referred to elsewhere in this Prospectus. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. See Note 3 to the ABH Financial Consolidated Financial Statements.

IFRS requires that effective interest rates be used in the preparation of IFRS compliant consolidated financial statements. ABH Financial utilises both the effective interest rate and the average interest rate for its management's monitoring of operational results and effectiveness.

These average interest rate measures are not defined under IFRS or other generally accepted accounting principles, nor should they be considered as substitutes for the information contained in the ABH Financial Consolidated Financial Statements.

Non-IFRS measures

Combined Key Ratios, Profitability Ratios, Balance Sheet Ratios, Capital Adequacy and Credit Quality ratios (collectively, "**Non-IFRS measures**") are presented because ABH Financial considers them an important supplemental measure of ABH Financial's operating performance and financial position and believes they are used by securities analysts, investors and other interested parties in the evaluation of companies in ABH Financial's industry. Non-IFRS measures have limitations, and they should not be considered in isolation, or as a substitute for analysis of ABH Financial's operating results and financial position as reported under IFRS. ABH Financial compensates for the limitations of Non-IFRS measures by relying primarily on its IFRS operating results and using Non-IFRS measures only supplementally. See the ABH Financial Consolidated Financial Statements and information for ABH Financial included elsewhere in this Prospectus

Key Features

The following information is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus and the financial statements, including the notes thereto.

The Alfa Banking Group

ABH Financial is the parent company of the Alfa Banking Group. Alfa Bank is an indirect subsidiary of ABH Financial.

The Alfa Banking Group's business is organised on the basis of three main segments:

- Corporate and investment banking;
- Retail banking; and
- Treasury operations

(see "*Description of the Alfa Banking Group—Overview*").

The Alfa Banking Group is one of Russia's largest banking groups in terms of assets, loans and deposits among private banks (according to data published on the RosBusiness Consulting website: www.rbc.ru).

The Alfa Banking Group offers a full range of products and operates in many sectors of the financial markets including lending, interbank, corporate and retail deposits, foreign exchange operations, debt, bond and equity trading, project finance, leasing, asset management, payments and cash management. As at 31 December 2010, the Alfa Banking Group had 364 offices throughout Russia and abroad, including subsidiaries and representative offices (along with their associated branches) in the Russian regions, Netherlands, Cyprus, the United States and the United Kingdom. As at 31 December 2010, the Alfa Banking Group had a total corporate customer base of approximately 40,000 clients and a retail customer base of approximately 5.3 million clients.

Alfa Bank

Alfa Bank is registered in the Russian Federation to carry out banking and foreign exchange activities, has operated under a general banking licence and a licence to deal in precious metals issued by the CBR since January 1991. In 2000, Alfa Bank received licences for depository, broker-dealer and asset management activities and in 2002 and 2009 received licences to act as a special depositary for various funds and to deal in futures and options. Alfa Bank also holds licences for provision of encryption services, distribution and servicing of encryption equipment and working with state secret materials.

Credit Ratings of Alfa Bank

Alfa Bank is rated by three rating agencies: Moody's Investors Service, Inc. ("**Moody's**"), Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and Fitch Ratings CIS Limited ("**Fitch**"). These ratings have been prepared by the rating agencies based on ABH Financial Consolidated Financial Statements and not on financial statements of Alfa Bank prepared on a standalone basis.

Alfa Bank has received a long-term credit rating of Ba1 (outlook stable) from Moody's, BB- (outlook stable) from Standard & Poor's and BB (outlook stable) from Fitch. See "*The Offering—Ratings*" for a description of the ratings of the Notes.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or Alfa Bank could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

The Offering

The following summary is qualified in its entirety by, and is subject to, the detailed information contained elsewhere in this Prospectus. Certain terms used in this summary are defined elsewhere in this Prospectus.

Issuer	Alfa Bond Issuance plc
Borrower	OPEN JOINT-STOCK COMPANY "ALFA-BANK"
Guarantor	ABH Financial Limited
Issue Amount	U.S.$1,000,000,000
Issue Date	28 April 2011
Issue Price	100% of the principal amount of the Notes
Maturity Date	28 April 2021
Yield	7.75% per annum
Trustee	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent	The Bank of New York Mellon, London Branch
U.S. Paying Agent and Transfer Agent	The Bank of New York Mellon, New York Branch
Registrar	The Bank of New York Mellon (Luxembourg) S.A.
Joint Lead Managers	OJSC "ALFA-BANK", Goldman Sachs International and UBS Limited
Interest	On each Interest Payment Date (being 28 April and 28 October in each year commencing on 28 October 2011) the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, which interest is equivalent to 7.75% per annum.
Status of the Notes	The Notes constitute secured, limited recourse obligations of the Issuer. The Notes are secured in the manner described in the Trust Deed and shall at all times rank *pari passu* and without preference amongst themselves.
Use of Proceeds	The net proceeds from the issue of the Notes will be used by the Issuer for the sole purpose of financing the Loan to the Borrower. The Borrower intends to use the net proceeds from the Loan to fund the expansion of its loan portfolio and to support its liquidity management.
Form of the Notes	The Notes will be issued in registered form in denominations of U.S.$200,000 or integral multiples of U.S.$1,000 in excess thereof, without interest coupons attached. The Regulation S Notes and the Rule 144A Notes will initially be represented by a Regulation S Global Note and a Rule 144A Global Note, respectively, each without interest coupons. The Regulation S Notes will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg, on or about 28 April 2011. The Rule 144A Notes will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee for, DTC, on or about 28 April 2011. The Global Notes will only be exchangeable for Definitive Notes in the limited circumstances described under *"Summary of Provisions relating to the Notes in Global Form"*.

Limited Recourse	The Notes will constitute the obligation of the Issuer to apply an amount equal to the net proceeds from the issue of the Notes solely for the purpose of financing a Loan to Alfa Bank pursuant to the terms of the Loan Agreement. The Issuer will only account to the holders of the Notes for all amounts equivalent to those (if any) actually received and retained (net of tax and all other deductions whatsoever) from the Borrower and/or ABH Financial under the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, less amounts in respect of the Reserved Rights (as defined in "*Terms and Conditions of the Notes*"). No other assets of the Issuer will be available to meet the claims of the Noteholders.
Reorganisation of Guarantor	Pursuant to the terms of the Loan Agreement, ABH Financial may consolidate or amalgamate with another entity, or merge with or into another entity, or transfer all or substantially all of its assets (which pursuant to the terms of the Loan Agreement may comprise of all of ABH Financial's shares in the Borrower whether held directly or indirectly at the time of such transfer) to another entity without the Trustee's consent provided that the resulting, surviving or transferee entity (i) holds and/or controls (directly or indirectly) in excess of 50% of the shares in the Borrower (ii) produces financial statements in accordance with IFRS and (iii) has either (x) acquired the rights and assumed the obligations of ABH Financial under the ABH Financial Deed of Guarantee or (y) entered into a new deed of guarantee with the Issuer on substantially the same terms as the ABH Financial Deed of Guarantee.
Security	The Notes will be secured by a charge (the "**Charge**") in favour of the Trustee for the benefit of the Noteholders, of: (a) all rights to principal, interest and other amounts now or hereafter payable to the Issuer by the Borrower under the Loan Agreement or ABH Financial under the ABH Financial Deed of Guarantee; (b) the right to receive all sums that may be or become payable by the Borrower or ABH Financial under any claim, award or judgment relating to the Loan Agreement or the ABH Financial Deed of Guarantee; and; (c) all the rights, title and interest in and to all sums of money now or in the future deposited in an account specified in the Loan Agreement and the debts represented thereby (including interest from time to time earned on the account, if any); provided, in each case, that the Reserved Rights (as defined in "*Terms and Conditions of the Notes*"), and any amounts in respect thereof, are excluded from the Charge. Furthermore, under the terms of the Trust Deed, the Issuer will assign absolutely all of its rights under the Loan Agreement and the ABH Financial Deed of Guarantee, except for any Reserved Rights and rights subject to the Charge as described above, to the Trustee for the benefit of itself and the Noteholders.
Redemption by the Issuer	If the Borrower prepays the Loan pursuant to the Loan Agreement, whether for tax reasons or by reason of increased costs or illegality, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100% of the principal amount of such Notes, together with the accrued and unpaid interest and additional amounts (if any), all as more fully described in "*Terms and Conditions of the Notes— Redemption*".
Redemption Upon a Change of Control Put Event	The Notes will contain provisions whereby a Noteholder will be entitled to redeem their Notes prior to maturity upon the occurrence of a Change of Control Put Event. A "**Change of Control**" shall be deemed to have occurred at each time (whether or not approved by the Board of Directors of ABH Financial) that any Person or any Persons acting in concert, or any Persons acting on behalf of any such Person(s), at any time is/are or become(s) interested in or acquires an interest in (a) more than 50% of the issued or allotted ordinary share capital of ABH Financial or (b) shares in the capital of ABH Financial carrying more than 50% of the voting rights normally exercisable at a general

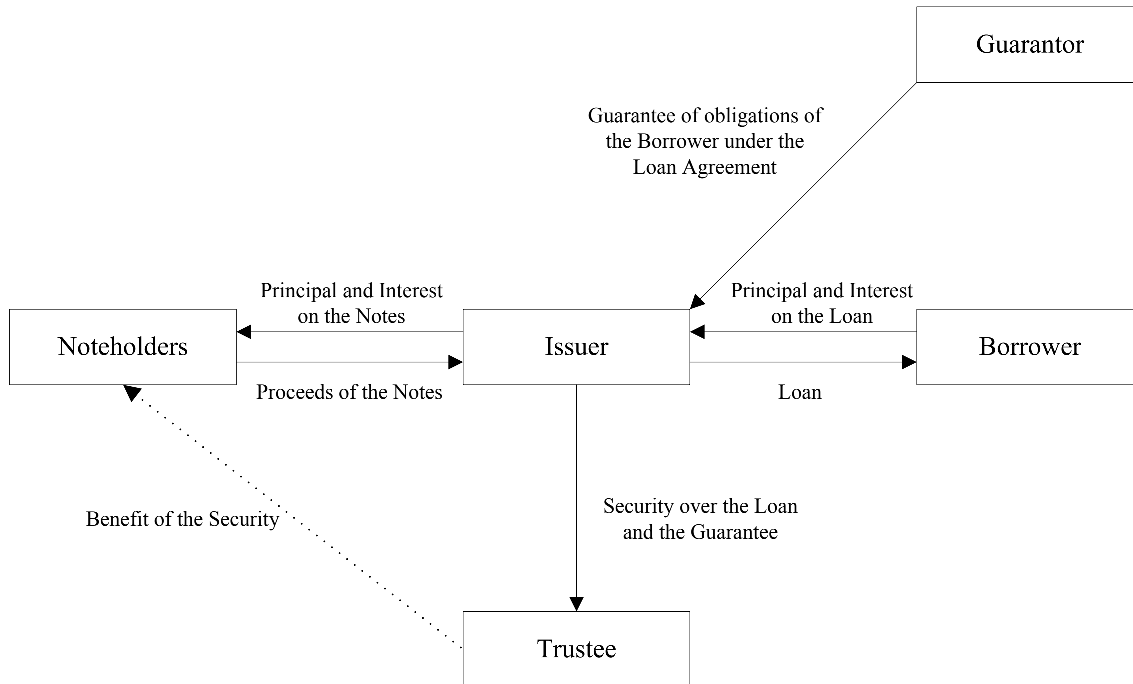
	meeting of the shareholders of ABH Financial. An ABH Financial Limited Permitted Reorganisation (as described in the Loan Agreement) shall not constitute a Change of Control. For more detail, see "*Terms and Conditions of the Notes –Redemption–Change of Control*". "**Change of Control Put Event**" means the occurrence of both (a) a Change of Control and (b) a Negative Ratings Event resulting from that Change of Control, each as more fully described in the Loan Agreement.
Withholding Tax	All payments in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Ireland or any political subdivision or any authority thereof or therein having the power to tax, other than as required by law. In the event that such taxes are required to be deducted or withheld, the sum payable by the Issuer will be required (subject to certain exceptions) to be increased to the extent necessary to ensure that the Noteholders receive the sum which they would have received had no such deduction or withholding been required. See "*Terms and Conditions of the Notes–Taxation*". All payments of interest and principal under the Loan by the Borrower and/or the ABH Financial Deed of Guarantee by ABH Financial, as the case may be, will be made free and clear of and without deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Russian Federation or Ireland (in the case of payments under the Loan) or the Republic of Cyprus or Russia (in the case of payments under the ABH Financial Guarantee), or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law. In such event the sum payable by the Borrower or ABH Financial, as the case may be, (subject to certain customary exceptions) will be required to be increased to the extent necessary to ensure that after such deduction or withholding, the Issuer receives the sum, which it would have received had no such deduction or withholding been required.
Negative Pledge	So long as any Note remains outstanding the Borrower shall not, and shall request that ABH Financial shall not, and shall instruct and direct that any Material Subsidiary shall not, directly or indirectly, create, incur or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, securing any Indebtedness unless (i) the Notes are secured equally and rateably with such other Indebtedness or (ii) such other security for the Notes as may be approved by the Trustee or an Extraordinary Resolution or a Written Resolution of the Noteholders, is provided, all as more fully described in the Loan Agreement.
Certain Other Restrictions and Covenants	The Loan Agreement will contain certain covenants made by the Borrower in respect of itself, ABH Financial and its respective Material Subsidiaries, including in respect of transactions with affiliates, making restricted payments, maintenance of capital adequacy, maintenance of authorisations, change of business, limitation on sale of assets, limitation on merger and consolidation, limitation on restrictions on distributions from Material Subsidiaries and ranking of claims, all as fully described in the Loan Agreement.
Events of Default and Relevant Events	If either an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) occurs, the Trustee may, subject to the provisions of the Trust Deed: (a) in the case of an Event of Default, declare all amounts payable by the Borrower under the Loan Agreement to be immediately due and payable and to do all such other acts in connection therewith that the Trustee may direct; or (b) in the case of a Relevant Event, enforce the security created by the Trust Deed. Upon repayment of the Loan following an Event of Default, the Notes will be redeemed and (subject to the provisions of the Trust Deed) repaid at their principal amount, together with interest

	accrued but unpaid to the date fixed for redemption and thereupon shall cease to be outstanding.
Further Issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes on the same terms as existing Notes and such further Notes shall be consolidated and form a single series with such existing Notes, as more fully described in "*Terms and Condition of the Notes–Further Issues*".
Selling Restrictions	United Kingdom, United States, Republic of Cyprus, Ireland and Russia. See "*Subscription and Sale – Selling Restrictions*".
Ratings	The Notes are expected to be rated Ba1 by Moody's, BB- by Standard & Poor's and BB by Fitch. **A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analyzed independently from any other rating.**
Listing	Application has been made to the UK Listing Authority, as competent authority under the Prospectus Directive, for this Prospectus to be approved, and for the Notes to be admitted to the Official List. Application has been made to the London Stock Exchange for the Notes to be admitted to trading on the Regulated Market.
ERISA Considerations	The Notes may not be acquired by any Benefit Plan Investor (as defined below). Each purchaser and/or holder of the Notes and each transferee thereof will be deemed to have made representations that it is not such a Benefit Plan Investor. Potential purchasers should read the sections entitled "*Certain ERISA Considerations*" and "*Transfer Restrictions*".
Security Codes	Regulation S Notes ISIN: XS0620695204 Regulation S Notes Common Code: 062069520 Rule 144A Notes ISIN: US01538RAB50 Rule 144A Notes Common Code: 062107111 Rule 144A Notes CUSIP: 01538R AB5
Governing Law	The Notes, the Loan Agreement, the ABH Financial Deed of Guarantee, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.
Investment Considerations	An investment in the Notes involves a high degree of risk. See "*Risk Factors*".

Description of the Transaction

The following description is qualified in its entirety by, and is subject to, the detailed information contained elsewhere in this Prospectus. Certain terms used in this summary are defined elsewhere in this Prospectus.

The following diagram illustrates the structure of the transaction:



The Issuer will structure the transaction as a Loan to the Borrower by the Issuer.

The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Loan to the Borrower. The Loan Agreement has characteristics, which demonstrate the capacity to produce funds to service any payments due and payable on the Notes. The Notes will be constituted by, be subject to, and have the benefit of, the Trust Deed. The Issuer will only account to the holders of the Notes for all amounts equivalent to those (if any) actually received and retained (net of tax and all other deductions whatsoever) from the Borrower and/or ABH Financial under the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, less amounts in respect of the Reserved Rights (as defined in "*Terms and Conditions of the Notes*"). No other assets of the Issuer will be available to meet the claims of Noteholders. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered and retained (net of tax), the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and the Noteholders may take no further action against the Issuer to recover such amounts.

The Guarantor will irrevocably and unconditionally guarantee the payment and other obligations of the Borrower under the Loan Agreement.

As provided in the Trust Deed, the Notes will be secured by a charge in favour of the Trustee for the benefit of the Noteholders, of:

- all rights to principal, interest and other amounts now or hereafter payable to the Issuer by the Borrower under the Loan Agreement or ABH Financial under the ABH Financial Deed of Guarantee;
- the right to receive all sums that may be or become payable by the Borrower or ABH Financial under any claim, award or judgment relating to the Loan Agreement or the ABH Financial Deed of Guarantee; and
- all the rights, title and interest in and to all sums of money now or in the future deposited in an account with The Bank of New York Mellon, One Canada Square, London E14 5AL (as specified in the Loan

Agreement) and the debts represented thereby (including interest from time to time earned on the account, if any),

provided in each case, that the Reserved Rights (as defined in "*Terms and Conditions of the Notes*"), and any amounts in respect thereof, are excluded from the Charge.

In addition, under the terms of the Trust Deed, the Issuer will assign absolutely all of its rights under the Loan Agreement and the ABH Financial Deed of Guarantee, except for any Reserved Rights and rights subject to the Charge as described above, to the Trustee for the benefit of itself and the Noteholders. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of the Loan.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event as further described in "*Terms and Conditions of the Notes*".

Risk Factors

An investment in the Notes involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained in this Prospectus, before they decide to buy the Notes. The actual occurrence of any of the following risks could adversely affect the Alfa Banking Group's business, operating results or financial condition. In that case, the value of the Notes could also decline and investors could lose all or part of their investment.

The risks and uncertainties discussed below are those that the Issuer, Alfa Bank and ABH Financial believe are material, but these risks and uncertainties may not be the only ones that the Alfa Banking Group faces. Additional risks and uncertainties, including those of which the Issuer, Alfa Bank and ABH Financial management are not currently aware or deem immaterial, may also have an adverse effect on the Alfa Banking Group's operating results and financial condition or result in other events that could lead to a decline in the value of the Notes.

Risks Relating to the Alfa Banking Group's Business and Industry

The instability of the global and the Russian financial markets may have a material adverse effect on the Alfa Banking Group's business, liquidity and financial condition.

Dislocation of Financial Global Credit Markets

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the onset of the global financial crisis in the autumn of 2007. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide, funding to borrowers, including other financial institutions, which has significantly reduced the liquidity in the global financial system.

In response to the global financial crisis and the threats to the ability of investment banks and other financial institutions to continue as going concerns, many of the largest countries in the world, including Russia, the United States and several European countries, implemented significant rescue packages, which included, among other things: the recapitalisation of banks through the state purchase of common and preferred equity securities; the state guarantee of certain forms of bank debt; the purchase of distressed assets from banks and other financial institutions by the state; and the provision of guarantees of distressed assets held by banks and other financial institutions by the state.

Despite these measures, volatility and market disruption in the global banking sector has continued through 2010 as fears of a sovereign debt crisis developed concerning certain countries in Europe, particularly Greece, Ireland and Portugal, but also Spain and Italy. Concern about rising government deficits and debt levels across the globe together with a wave of downgrading of European government debt has created additional volatility in financial markets, leading to a crisis of confidence and the widening of bond yield spreads and risk insurance on credit default swaps between these countries and other European Union members. Fears that the crisis could spill into the banking sector has caused volatility in bank shares. In May 2010, the European Bank for Reconstruction and Development stated the crisis might affect Eastern Europe through a disruption of capital markets as well as a decrease in import demand from other countries.

No assurance can be given that a further downturn will not occur, or that further state support measures will not be required, or that any state support measures will be sufficient to restore stability in the global banking sector and financial markets in the short term or beyond.

Since the beginning of 2011, unrest across several countries in the Middle East and North Africa (notably Egypt, Libya, Syria, Tunisia, Bahrain and Yemen) has led to increased volatility in the financial markets and in the prices of commodities, particularly oil. These and other events could result in a lower flow of foreign investment into and increased capital outflows from Russia and emerging markets generally or persistent volatility in global and regional financial markets.

Any such uncertainty, disruption or volatility may have an adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Impact on the Alfa Banking Group's Business Operations

Uncertainty in the international financial markets and any further tightening in credit conditions and contraction of the economies in which the Alfa Banking Group operates has adversely impacted, and could continue to adversely impact in the future, should the market conditions worsen again, the Alfa Banking Group's business and operating results as a result of:

- decreases in the Alfa Banking Group's net interest income;
- decreases in the demand for the Alfa Banking Group's credit products as a result of higher interest rates;
- significantly increased non-performing loans and loan provision charges, loan losses and write-offs;
- increases in borrowing costs and reduced, or no, access to capital markets due to unfavourable market conditions;
- currency volatility;
- liquidity constraints;
- outflows of deposits from accounts; and
- decreases in fee and commission income due to a reduction in capital markets activity, as well as significant declines in the market values of securities held in the Alfa Banking Group's trading and available for sale portfolios.

The Alfa Banking Group believes that its level of access to domestic interbank loans, the capital markets and the international syndicated loan market, together with its other funding sources, its credit standing and its liquidity and risk management policies allow it to meet its liquidity needs. Nevertheless, a decrease in the Alfa Banking Group's ability to access the domestic interbank loan market, the international syndicated loan market and/or the capital markets, whether resulting from the crisis in the sub-prime mortgage market or otherwise, or maturity mismatches between the Alfa Banking Group's assets and liabilities, may, together or separately, have a material adverse effect on the business, financial condition or results of operations of the Alfa Banking Group.

Impact on Liquidity

The disruptions in the Russian financial markets beginning in 2008 have had a severe impact on liquidity as well as the availability of credit and the terms and cost of funding in the Russian Federation. Because banks rely on the confidence of their depositor base to ensure sufficient reserves are available to continue as a going concern, they are particularly vulnerable in environments with little liquidity, which are often correlated with erosion of depositor bases. In addition, low-liquidity environments result in higher costs of funding which may result in a decrease of net interest margin.

Russian banks, including the Alfa Banking Group, experienced a reduction in available financing, both in the interbank and short-term funding market, as well as in the longer-term capital markets and through bank finance instruments. A number of financial institutions have suffered severe liquidity constraints and, in certain cases, their majority shareholders have had to sell their shares to other Russian institutions. The Russian securitisation market has also remained largely inaccessible as a result of the financial crisis taking effect in Russia in 2008. In Russia, the combination of uncertainty in the global markets and corresponding domestic factors in 2008 and early 2009 resulted in higher than normal interbank lending rates. For example, in January 2008, the average interbank Rouble lending rate was 2.8% but rose to 16.3% in January 2009. At end of 2009, the average interbank Rouble lending rate was 5.4% and as of February 2011 had fallen to 2.8%.

In 2009, the liquidity position in the Russian banking sector generally improved, with both retail and corporate deposits demonstrating signs of recovery with growth rates of 26.7% and 8.9%, respectively. In 2010, such growth

rates increased to 31.2% and 16.4% for retail and corporate deposits, respectively. However, should the economic situation worsen again in Russia, there can be no guarantee that the Alfa Banking Group will have access to funding sufficient to fund its operations or otherwise not be impacted by a lack of liquidity which may adversely impact the Alfa Banking Group's business and operating results. In addition, in the first quarter 2011, the CBR raised the interest rates and the mandatory reserve requirements for banks, which may have a negative impact on liquidity. See "*The stabilisation measures undertaken by the Russian Government to provide liquidity and support the Russian banking sector may not be available in the future, which may have a material adverse effect on its business, liquidity and financial condition,*" "*Regulation – Mandatory Reserve Deposit Requirements*" and "*Measures to Support the Liquidity and Solvency of Russian Banks and Legal Entities Since October 2008*."

Impact on the Ratings of Alfa Bank and the Russian Federation

As at the date of this Prospectus, Alfa Bank had a long-term issuer credit rating of "BB-" (downgraded from BB to BB- on 19 December 2008, further downgraded from BB- to B+ on 11 September 2009 and upgraded to BB- on 11 March 2011) and a short-term issuer credit rating of "B", both with a stable outlook from Standard & Poor's. On 12 November 2010, Moody's changed the outlook of Alfa Bank's long-term issuer credit rating of "Ba1", to stable from negative. In May 2010, Fitch raised the long-term issuer credit rating of Alfa Bank to BB from BB- and confirmed a short-term rating of B, both with a stable outlook.

By way of comparison, Moody's changed its outlook on the Russian banking sector from "stable" to "negative" in the third quarter of 2008. In October 2010, Moody's raised its outlook on the Russian banking sector to "stable". In February 2009, Fitch downgraded its long-term issuer default rating for the Russian Federation from "BBB+" to "BBB" and downgraded Russia's country ceiling rating from "A-" to "BBB+". In September 2010, Fitch changed its outlook on the credit rating of the Russian Federation to "positive". Additionally, Standard & Poor's downgraded its long-term/short-term sovereign credit ratings for the Russian Federation from "BBB+/A-2" to "BBB/A-3" in December 2008. There can be no assurance that Alfa Bank or the Russian Federation will be able to maintain these credit ratings, and any deterioration in the general economic environment or Alfa Bank's financial condition could cause downgrades which could adversely affect the Alfa Banking Group's liquidity and competitive position, undermine confidence in the Alfa Banking Group, increase its borrowing costs and limit its access to capital markets.

Impact on the Russian Banking Sector

In addition to anticipated slower asset growth in the Russian banking sector, when the effects of the global financial crisis reached Russia in late 2008, the Russian Federation faced significant inflation, experienced a decline in debt and equity prices and suffered a substantial outflow of capital from the country. In 2008 and early 2009, there were suspensions of trading in the Russian stock markets, extreme volatility in the Russian currency, debt and equity markets and sharp declines in the share prices of Russian financial institutions. Though there was significantly less volatility in 2010, instability to the banking system could return as a result of deteriorating asset quality and liquidity caused by weak depositor confidence and asset-liability mismatches. A combination of these factors could result in a significant deterioration in the financial fundamentals of Russian banks, notably liquidity, asset quality and profitability, including those of the Alfa Banking Group.

Deteriorating economic conditions in Russia and the other markets in which the Alfa Banking Group operates as well as a decline in the growth of Russia's banking sector may continue to have an adverse effect on the Alfa Banking Group.

The majority of Alfa Bank's profit is generated in Russia and the Alfa Banking Group is thus particularly exposed to deteriorating economic conditions in Russia. Investment capital inflows into Russia have decreased significantly as a result of the global financial crisis, reducing bank liquidity. In 2008, the Russian economy experienced a net capital outflow in the private sector of U.S.$133.9 billion, compared to a net capital inflow of U.S.$82.4 billion in 2007 according to RosStat. In 2009 net capital outflows slowed to U.S.$56.9 billion. But, in 2010 net capital outflows increased to U.S.$96.2 billion. According to RosStat, the volume of foreign investment into Russia in 2007 amounted to U.S.$120.9 billion, having increased by 119.5% as compared to 2006[1]. In 2008, however, according to the same source, the volume of foreign investment into Russia totalled U.S.$103.8 billion, representing a decline of 14.2% as compared to 2007. This figure fell to U.S.$81.9 billion in 2009, reflecting a further decrease of 21% from the previous year. While improving economic conditions led to an increase in the volume of foreign investments in 2010 as compared to 2009, there can be no assurance that this trend will continue.

Until 2008, the Russian banking sector had experienced steady growth, with total assets growing 44.1% in 2006, 44.1% in 2007 and 39.2% in 2008, according to the CBR. In addition, according to the CBR, the Russian banking sector's deposit and loan annual growth amounted to 20.2% and 34.5%, respectively, in 2008, while in 2009 the total amount of deposits grew by 16.1% and total amount of loans decreased by 2.5% primarily due to the impact of the global credit crisis[2]. In 2010, the Russian banking sector's deposit and loan annual growth was 22.9% and 12.6%, respectively.

As Russia produces and exports large volumes of oil and gas, dramatic falls in the prices of these commodities in the world market in the second half of 2008 and through the first half of 2009 resulted in sharp decreases in Russian government (the "**Russian Government**" or "**Government**") revenues and the revenues of privately held Russian companies operating in these sectors, which in turn had a severely negative effect on the overall Russian economy. According to data published by RosStat, real GDP growth slowed from 8.5% in 2007 to 5.2% in 2008, followed by a decrease in real GDP of 7.8% in 2009[3]. Commodity prices partially recovered in the latter half of 2009 and during 2010, and real GDP grew by 4% in 2010 (as compared to 2009) according to preliminary calculations of RosStat[4]. However, there can be no assurance that commodity prices will not experience a similar level of decline in the future, which would adversely affect GDP growth.

The deterioration of general economic conditions in Russia and the other markets in which the Alfa Banking Group operates and the negative knock-on effects in the Russian banking sector adversely impacted Alfa Bank and the Alfa Banking Group in 2008 and in 2009 and any renewed deterioration in the Russian economy and Russian banking sector could adversely affect the Alfa Banking Group's business, financial condition and results of operations.

Weakening of consumer spending and falling corporate profitability may increase loan impairment losses.

The Alfa Banking Group's overdue loans (i.e. loans with a delay in payment of principal or interest for one day or more) in accordance with IFRS as a percentage of total gross loans to customers significantly decreased to 4.7% as of 31 December 2010 from 21.2% as of 31 December 2009, being 10.8% as of 31 December 2008. The Alfa Banking Group also decreased its provision for impaired loans to customers to 7.6% as of 31 December 2010 as compared to 10.1% of its total loans to customers as of 31 December 2009 and 6.2% as of 31 December 2008. Notwithstanding the recent improvements in overdue loans, the Alfa Banking Group's loans to customers may

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[1] Source: Russian Federation Federal State Statistics Service

[2] Source: Central Bank of Russia

[3] Source: Russian Federation Federal State Statistics Service

[4] Source: Russian Federation Federal State Statistics Service

generate substantial impairment losses, particularly should economic conditions deteriorate, which could materially affect the Alfa Banking Group's business, results of operations, financial condition and prospects.

The stabilisation measures undertaken by the Russian Government to provide liquidity and support the Russian banking sector may not be available in the future, which may have a material adverse effect on the Alfa Banking Group's business, liquidity and financial condition.

In an effort to support the liquidity of the Russian banking sector as the effects of the global financial crisis were felt in Russia, in October 2008 the Russian Federation enacted a set of federal laws to facilitate the provision of credit to the Russian banking sector, with the intention of restoring investor confidence and supporting the medium-term growth of the Russian economy. The Government provided RUR910 billion for financing through long-term subordinated loans, issued by the CBR and Vnesheconombank (State Corporation Bank for Development and Foreign Economic Affairs) ("**Vnesheconombank**"), to state-controlled and private banks, subject to certain financial and rating criteria.

In addition, according to Reuters, the Russian Government pledged and lent out additional funds to stabilise the financial markets, from which Vnesheconombank, through the National Welfare Fund, received RUR175 billion to support the Russian financial markets[5]. In order to increase liquidity in the banking sector, the CBR also doubled the number of eligible issuers on its Lombard list (the "**Lombard List**"), which sets out a list of securities that can be used as collateral for loans from the CBR. As of March 2011, the Lombard List included more than 150 corporate issuers. However, in January 2011 the CBR adopted a decision to raise rating requirements for inclusion in the Lombard List starting from April 2011. This will result in fewer securities of corporate issuers being eligible for inclusion in the Lombard List and may have a material adverse effect on the liquidity of the Alfa Banking Group.

In 2009, Vnesheconombank provided the Alfa Banking Group with two subordinated loans totalling RUR39.6 billion. The first loan, entered into in December 2008 and provided in January 2009, was for RUR10.2 billion with a fixed interest rate of 8% per annum (effective 25 August 2010, decreased to 6.5% per annum) maturing on 25 December 2019. This loan was increased by RUR0.2 billion in September 2009. In October 2009, the Alfa Banking Group also received the second loan from Vnesheconombank for RUR29.2 billion with a fixed interest rate of 9.5% per annum (effective 25 August 2010, decreased to 7.5% per annum) maturing on 25 December 2020. In accordance with the terms of the Vnesheconombank funding now in effect, the Alfa Banking Group is required among other things (a) to maintain a portfolio of loans with a term of not less than six months issued to priority sectors of economy in Russia in the amount of the January 2009 subordinated loan outstanding; (b) to maintain a portfolio of loans with a term of not less than one year issued to priority sectors of the economy in Russia in the amount of the October 2009 subordinated loan outstanding at interest rates less than or equal to the CBR refinancing rate plus three percent; (c) to obtain approval from Vnesheconombank for certain significant transactions, and (d) to include Vnesheconombank nominees in Alfa-Bank's management bodies (currently a Vnesheconombank nominee sits on Alfa Bank's Board of Directors).

The Alfa Banking Group's use of state funding was due in part to the limited availability of funding from other sources as a result of the general liquidity squeeze following the onset of the Russian financial crisis in 2008. There can be no guarantee that, in the event the Alfa Banking Group requires future funding, it will be able to obtain further loans from Vnesheconombank. In addition, as at 31 December 2010, the Alfa Banking Group owned securities in the amount of approximately U.S.$1,100 million which were included in the Lombard List, and held other assets, in particular, loans and advances to customers in the amount of approximately U.S.$70 million, which already had been pre-approved by the CBR to be used as collateral for secured borrowing from the CBR. Currently no funds are borrowed from the CBR that are collateralised by these instruments.

Notwithstanding the implementation of the anti-crisis measures, a limited number of Russian financial institutions have continued to demonstrate liquidity problems, and while there has been improvement of the situation in the

[5] Source: Reuters

financial markets, no assurance can be given that similar liquidity problems will not occur in the future, or that the Russian government will continue to implement state support measures to support the Russian banking sector, or that the measures implemented will be effective, any of which may, together or individually, have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

The Alfa Banking Group could be negatively affected by the deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties.

The Alfa Banking Group routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant counterparty credit exposure. This counterparty risk is heightened as a result of financial institutional failures and nationalisations. The Alfa Banking Group will continue to be exposed to the risk of loss if any counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of, one or more financial services institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions which could materially and adversely affect the Alfa Banking Group's ability to raise interbank or other funding, its business, results of operations, financial condition and prospects.

The Alfa Banking Group may face liquidity risks, which it may fail to mitigate if it is unable to raise sufficient funding.

The Alfa Banking Group meets a significant portion of its funding requirements using customer deposits. Russian companies have significant liquidity requirements. Accordingly, they often withdraw their deposits and may not be in a position to place significant funds with the Alfa Banking Group on a long-term basis. The Russian Civil Code (the "**Civil Code**") entitles retail depositors to withdraw deposits, including term deposits, at any time, without penalty to principal. As a result, unanticipated decreases in corporate customer deposits and/or unexpected withdrawals of retail deposits may result in liquidity gaps that the Alfa Banking Group may not be able to cover.

The remainder of the Alfa Banking Group's funding is raised in the domestic and international capital, syndicated loan and interbank markets. In 2008 and 2009, the adverse market conditions significantly reduced the Alfa Banking Group's access to funding from these markets at commercially justifiable costs. In 2010, the Alfa Banking Group issued dollar-denominated bonds.

The Alfa Banking Group's ability to raise funding from domestic and international markets in amounts sufficient to meet its liquidity needs in the future could be adversely affected by a number of factors, including in particular renewed deterioration in Russian and international economic conditions and the state of the Russian financial and market systems. If the sources of short-term and, in particular, long-term funding, including from the Government, the international capital markets or inter-bank lending markets, are not available, the Alfa Banking Group's business, financial condition, results of operations, prospects and liquidity position, as well as the value of the Notes, could be materially adversely affected.

The Alfa Banking Group may be unable to accurately assess current and potential customers' credit risk and this could result in the Alfa Banking Group not becoming aware of events of default of its borrowers in a timely manner.

The Alfa Banking Group's total gross loans and advances to customers were U.S.$14,953 million as at 31 December 2009 and U.S.$18,175 million as at 31 December 2010. The Alfa Banking Group's loan portfolio requires continued and improved monitoring by management of credit quality and the adequacy of the Alfa Banking Group's provisioning levels. See "*Risk Management*". The Alfa Banking Group is subject to risks regarding the credit quality of, and the recovery on loans to and amounts due from, customers and market counterparties.

The Alfa Banking Group may not be able to assess default risk on loans provided to corporate customers accurately due to the unpredictability of economic conditions in Russia and abroad. While the Alfa Banking Group

requires the periodic disclosure of its corporate customers' financial statements, such financial statements may not always present a meaningful indication of each customer's consolidated financial condition due to the disclosure and accounting regulations in relevant countries, including Russia. Furthermore, the Alfa Banking Group's corporate customers often do not have extensive or externally verified credit histories. Therefore, in spite of the Alfa Banking Group's credit risk evaluation procedures, the Alfa Banking Group may be unable to evaluate the current financial condition of each prospective corporate borrower correctly or to determine accurately the ability of such corporate borrower to repay.

In addition, the availability of accurate and comprehensive financial and general credit information on individuals and small businesses in Russia is even more limited than in the case of larger corporate customers, which makes it more difficult for the Alfa Banking Group accurately to assess the credit risk associated with such lending. As a result of changes in the credit quality of the Alfa Banking Group's Russian and/or international customers and counterparties, or in their behaviour, or arising from systemic risks in the Russian and global financial system, the Alfa Banking Group increased its provision for loan losses and allowances for loan impairment in 2008 and 2009. Though provisioning for loan impairment decreased in 2010, there can be no guarantee that loan losses or advances for loan impairment will not increase in the future. Any such losses and allowances may adversely affect the Alfa Banking Group's business, financial condition, results of operations, prospects and liquidity position.

Inadequacy of the Alfa Banking Group's risk management policies and procedures may lead to unidentified or unanticipated risks.

The Alfa Banking Group engages in risk management activities to systematically monitor and manage credit, market, investment, liquidity and operational risk. These risk management policies and procedures may not be fully effective in identifying, monitoring, mitigating and managing the risks associated with the Alfa Banking Group's business.

The steps the Alfa Banking Group takes to address credit, market, investment and liquidity risk include entering into hedging transactions to address market risks related to the asset origination and trading activities and prescribing limits on the amount of credit risk per counterparty or per country that may be incurred in the lending and capital markets activities. These hedging transactions may include over-the-counter derivative contracts or the purchase or sale of securities, financial futures, options or forward contracts. If any of the variety of instruments and strategies used to hedge the Alfa Banking Group's exposure to credit, market, investment and liquidity risks are not effective in fully covering its risks, the Alfa Banking Group may incur losses. Unexpected market developments may in the future also affect a number of the Alfa Banking Group's hedging strategies. Certain of hedging strategies and other methods of managing risk are based upon observed historical market behaviour. As a result, these methods may not correctly predict future risk exposures, which could be significantly greater than historical results indicate. To manage risk, the Alfa Banking Group depends on the evaluation of information regarding markets, issuers and investors. The Alfa Banking Group can give no assurance that this information will in all cases be accurate, up-to-date and properly evaluated. The Alfa Banking Group's policies and procedures may not be fully effective in managing these risks. If the measures, which the Alfa Banking Group uses to identify, monitor and manage risks, prove insufficient, the Alfa Banking Group may experience unanticipated disruption of its operations and consequent losses which could have a material adverse effect on its business, results of operations and financial condition.

The Alfa Banking Group could face increased loan losses and decreased demand for its services from both corporate customers and individuals who have been affected by the global economic crisis.

Following the onset of the Russian financial crisis in late 2008, turmoil in the global and Russian credit markets, the decrease in the world market prices in Russia's key export commodities and declining GDP in Russia had a significant negative impact on the Russian economy. Factors including increased unemployment in the Russian Federation, rising inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and/or increased interest rates reduced the Alfa Banking Group's customers' and market counterparties' ability to repay loans. In addition, changes in economic conditions resulted in deterioration in the

value of security held against loans and other obligations. If the Russian economy suffers another contraction, there is a significant risk that the Alfa Banking Group's existing loan portfolio will deteriorate further.

Many of the Alfa Banking Group's large corporate customers engage in the production and/or export of oil, gas, iron ore, metals and other raw materials, which have seen dramatic falls in prices, in particular in 2008 and 2009. While commodity prices have partially recovered in 2010 and particularly in early 2011, there is no assurance that they will not decline again in the future. The decreases in the prices of these commodities may negatively affect the financial condition of such customers. Similarly, many of the Alfa Banking Group's customers are engaged in industries, such as building and construction, consumer products and services, financial services and trade and commerce that were directly affected by the deterioration in economic conditions in Russia and the other countries in which the Alfa Banking Group operates. This may continue to result in, among other things, decreased corporate deposits from these customers, a reduction in the volume of foreign currency and/or foreign trade operations by these customers, decreases in the value of the collateral (including immovable property, land, equipment, intangibles and machinery) underlying their obligations and the need to increase such collateral, defaults on their obligations and, ultimately, increased loan losses to the Alfa Banking Group.

The Alfa Banking Group had significantly increased its lending to individuals and small businesses in the years prior to the crisis. During the crisis, the challenging economic conditions in Russia have resulted in reduced income levels and increased unemployment, which adversely affected the quality of the Alfa Banking Group's retail portfolio and resulted in increased loan losses. Many small businesses in the Russian Federation have limited experience operating in competitive market conditions as compared to their Western counterparts and have been adversely affected by the challenging economic conditions in Russia. These customers generally have less capital and liability management experience than larger customers and are more sensitive to economic downturns.

The Alfa Banking Group may be unable to reduce the industry and borrower concentrations in its loan portfolio.

The Alfa Banking Group's loan portfolio has greater exposure to certain economic sectors. As of 31 December 2010, the individuals, trade and commerce, construction, power generation, railway transport and ferrous metallurgy sectors accounted for 12.6%, 11.4%, 11.4%, 9.6%, 8.1% and 8.1%, respectively, of the Alfa Banking Group's gross loan portfolio (excluding loans to banks and off-balance sheet credit-related commitments) compared to 14%, 9%, 16%, 7%, 11% and 4%, respectively, as of 31 December 2009. In addition, as at 31 December 2010, loans to the Alfa Banking Group's ten largest non-bank borrowers amounted to U.S.$5,145 million representing 28.3% of the Alfa Banking Group's total gross loans to customers, as compared to US$4,243 million or 28.4% as at 31 December 2009. As a result, the Alfa Banking Group's financial condition is sensitive to the downturns in the sectors in which it has high industry concentrations or its largest borrowers operate, as well as adverse changes to such borrowers' business and financial condition. There can be no assurance that the Alfa Banking Group will be able to achieve or maintain a greater level of diversification in its loan portfolio. The Alfa Banking Group's failure to do so may have a material adverse effect on its business, financial condition, results of operations or prospects.

A decline in the value or illiquidity of the collateral securing the Alfa Banking Group's loans may adversely affect the Alfa Banking Group's loan portfolio.

A substantial portion of the Alfa Banking Group's loans to corporate customers and individuals is secured by collateral such as real property, land leasing rights, production equipment, vehicles, aeroplanes, ships, securities, precious metals, raw materials and inventory. The recent downturns in many of these industries and the general deterioration of economic conditions in Russia has resulted, and may continue to result, in declines in the value of collateral securing a number of loans to levels below the amounts of the outstanding principal and accrued interest on those loans. The reduced collateral values may not be sufficient to cover uncollectible amounts on the Alfa Banking Group's secured loans, which may result in the Alfa Banking Group being required to reclassify the relevant loans, establish additional provisions for loan impairment and/or increase reserve requirements. A failure to recover the expected value of collateral may expose the Alfa Banking Group to loan losses, which may materially adversely affect the Alfa Banking Group's financial condition and results of operations.

In addition, the Alfa Banking Group may acquire controlling or minority stakes in defaulting companies which operate in sectors which are not core to the Alfa Banking Group's business and in respect of which the Alfa Banking Group has no operational or management expertise. The Alfa Banking Group may not have an adequate number of personnel with sufficient experience to assume control of and manage these companies. The Alfa Banking Group may also fail to manage these businesses efficiently once it has assumed control.

The Alfa Distressed Assets ("**ADA**") subholding was created in 2009 inside a wider group of companies that operate principally in the banking, insurance, telecommunications and the oil and gas sectors, as well as in investment and retail trade businesses (the "**Alfa Consortium**") for accumulating and managing non-core assets. Many of these non-core assets consist of assets received as a result of restructuring of problem loans initially originated by the Alfa Banking Group and then sold to ADA at fair value. ADA's assets are managed, under a Master Service Agreement, by a professional asset manager, A1 Group, which is also a member of the Alfa Consortium. Proceeds from the subsequent sale of these assets by ADA are to be used to repay such indebtedness to the Alfa Banking Group although any residual value received by ADA upon such sale will be attributable to the shareholders of ADA. As at 31 December 2010, the Alfa Banking Group had extended U.S.$904 million (including loans and other receivables) to ADA and its subsidiaries and associates. See "*Related Party Transactions*".

It may be difficult for the Alfa Banking Group to enforce security and/or guarantees under Russian law.

The Alfa Banking Group enters into security arrangements for loans made to its corporate and retail customers. Under Russian law, collateral (which includes, among others, pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation becomes void. Furthermore, the enforcement of security under Russian law generally requires either an agreement of the parties for an out of court enforcement procedure (which is subject to certain specific requirements and is relatively new) or, in certain cases, a court order followed by a public sale of the collateral. A court may in certain circumstances delay such public sale for a period of up to one year upon a pledgor's application. A mortgage under Russian law is a pledge over real property, such as land and buildings, which requires state registration to be valid. Russian law has no pledge perfection system for collateral other than mortgages and shares in Russian joint stock companies, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Additionally, the pledgeholder may not be able to levy execution upon a pledged property if such property is sold to a good faith purchaser who did not know about the pledge. Therefore, the Alfa Banking Group may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans, which may adversely affect the Alfa Banking Group's financial condition and results of operations.

A substantial portion of the Alfa Banking Group's loans to its corporate and retail customers is guaranteed by individuals and other corporate customers. In addition, a substantial portion of the Alfa Banking Group's loans to corporate customers is assured by the borrower's agreement that a certain volume of its cash receivables will flow through accounts, over which the Alfa Banking Group has direct debit rights. However, if the guarantor's financial condition deteriorates or if the borrower does not honour an assurance arrangement, the Alfa Banking Group may not be able to recover on guarantees or assurance arrangements, which may lead to losses, materially adversely affecting its financial condition and results of operations. See "*Risk Management*".

The Alfa Banking Group's investment banking activities are highly susceptible to global economic conditions.

The income, the Alfa Banking Group derived from its diversified investment banking activities, including equity brokerage, fixed income trading, investment banking and M&A advisory work, is generally subject to greater variation than the Alfa Banking Group's commercial banking operations and is highly susceptible to conditions in the global markets and international and Russian economic conditions. As a result, there can be no assurance that the financial results of the Alfa Banking Group's investment banking activities will not be materially lower than historical levels (even resulting in losses). In the second half of 2008 and in 2009 the Alfa Banking Group's investment banking activities were adversely affected by the global economic crisis, and may be adversely affected as a result of market conditions in the future.

The Alfa Banking Group's strategy could be unsuccessful or less successful than the Alfa Banking Group anticipates.

The Alfa Banking Group's ability to execute its strategy will depend on a variety of factors which are to some degree within the Alfa Banking Group's control, such as its ability to attract clients and investors and its skill in structuring and executing transactions, as well as factors completely outside of the Alfa Banking Group's control, such as global economic conditions, interest rates and demand for certain products. The Alfa Banking Group cannot be certain that its strategy will be a success or whether it will meet its aims and objectives.

Market risks may adversely affect the Alfa Banking Group's financial condition and operating results.

The Alfa Banking Group's financial condition and operating results have been adversely affected by market risks, in particular in 2008 and 2009, that are outside the Alfa Banking Group's control, including, without limitation, volatility in interest rates, prices of securities and currency exchange rates.

Movements in interest rates have adversely affected the Alfa Banking Group's operations and financial condition in a number of different ways. In 2008 and 2009, increased inflation and competition for customers increased interest rates payable on new customer deposits for banks operating in the Russian market, which had a negative impact on the Alfa Banking Group's net interest margins as competitive pressures, concerns regarding customer defaults, fixed rates in existing loan commitments or facilities and regulatory concerns restricted the Alfa Banking Group's ability to increase interest rates on loans to customers in a corresponding manner. In 2010, interest rates decreased in response to improved market conditions and a drop in the CBR refinancing rate. However, in early 2011, the CBR increased the refinancing rate to curb the rising inflation, which in turn resulted in an increase in overall interest rates.

An increase in interest rates generally may raise the Alfa Banking Group's funding costs. Such an increase could also generally decrease the market value of fixed rate debt securities, as it did in 2008, when the Alfa Banking Group experienced significant decreases in the value of its fixed rate debt securities portfolio when Rouble interest rates increased. In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer defaults. General volatility in interest rates may result in a gap between the Alfa Banking Group's interest-rate sensitive assets and liabilities. In September 2008, a period of high and volatile interbank lending rates began which, together with shortening maturity of deposits, exacerbated the risk of such gaps, though rates have trended significantly downwards since then. For example, in January 2008, the average interbank Rouble lending rate was 2.8% but rose to 16.3% in January 2009, though at end of year 2009 the average interbank Rouble lending rate was 5.4% and as at February 2011 had further fallen to 2.8%. As a result, in 2009 the Alfa Banking Group incurred, and may incur in the future should the markets conditions deteriorate again, additional costs and has exposed, and may expose itself to other risks by adjusting such asset and liability positions through the use of derivative instruments. Interest rates are sensitive to many factors beyond the Alfa Banking Group's control, including the policies of central banks, including the CBR, adverse domestic and international economic conditions and political factors. There can be no assurance that the Alfa Banking Group will be able to protect itself from the adverse effects of future interest rate fluctuations. Any fluctuations in market interest rates could lead to a reduction in associated net interest income and adversely affect the Alfa Banking Group's financial condition and results of operations.

The Alfa Banking Group's financial condition and operating results are also affected by changes in market values in the Alfa Banking Group's securities portfolio. The Alfa Banking Group engages in proprietary trading operations, primarily consisting of transactions in equity and debt securities, and the Alfa Banking Group has in the past derived a significant portion of its operating income from such operations. As of 31 December 2010, the value of the Alfa Banking Group's trading securities and repurchase receivables portfolio was U.S.$2,340 million, which represented 8.2% of the Alfa Banking Group's total assets at that date. The Alfa Banking Group's income from operations with securities depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. Market price fluctuations, particularly affecting the Alfa Banking Group's Russian corporate and government debt securities

and Russian equity securities, may adversely affect the value of the Alfa Banking Group's securities portfolio. See "*Risk Management*".

The Alfa Banking Group also trades in foreign currencies on behalf of its clients and for its own account and maintains open currency positions, which give rise to currency risks. Future changes in currency exchange rates may adversely affect the Alfa Banking Group's financial condition and results of operations.

Devaluation of the Rouble against the U.S. dollar and other currencies may have a material adverse effect on the Alfa Banking Group.

Certain members of the Alfa Banking Group, including Alfa Bank, use as their functional currency the Russian Rouble. However, the Alfa Banking Group's presentation currency is the U.S. dollar. Monetary assets and liabilities originally denominated in currencies other than the functional currency of the respective Alfa Banking Group member are translated into the functional currency of such entity in connection with the preparation of the Alfa Banking Group's consolidated financial statements. Gains and losses arising from such translations are reflected in the Alfa Banking Group's income statement as foreign exchange translation gains less losses. For the purposes of the presentation of the Alfa Banking Group's consolidated accounts, assets and liabilities are translated into the presentation currency of the Alfa Banking Group, the U.S. dollar, at the relevant balance sheet date. The Alfa Banking Group's negative Rouble net balance sheet and derivatives position, calculated as excess of Rouble-denominated liabilities over Rouble-denominated assets plus net position in derivatives, was U.S.$777 million as at 31 December 2010. Having a large negative net Rouble balance sheet and derivatives position tends to result in foreign exchange translation gains during the period when the U.S. dollar appreciates against the Rouble in nominal terms and in foreign exchange translation losses during the period when the U.S. dollar depreciates against the Rouble in nominal terms.

While the Rouble appreciated against the U.S. dollar in real terms each year between 2000 and 2007, it experienced significant depreciation against the U.S. dollar in 2008 and in the beginning of 2009, largely as a result of the global financial crisis and the significant fall in prices in oil and commodities that are the principal generators of Russia's export earnings. This process of depreciation was significantly influenced by the CBR as part of its policy to maintain low volatility. Between 1 August 2008 and 1 March 2009, the Rouble depreciated by 52.5% against the U.S. dollar (from RUR23.42 per U.S.$1.00 to RUR35.72, according to the CBR)[6]. The exchange rate has fluctuated dramatically over the past two years — ranging from RUR23.13 per U.S.$1.00 as at 16 July 2008 to RUR36.43 per U.S.$1.00 as at 19 February 2009 and to RUR28.12 per U.S.$1.00 as at 11 April 2011. It is therefore uncertain whether current exchange rate levels will be maintained.

In addition to possible foreign exchange transaction losses, depreciation of the Rouble against the U.S. dollar could negatively affect the Alfa Banking Group in a number of ways. These include, among other things, increasing the actual cost to the Alfa Banking Group of financing its U.S. dollar-based liabilities and making it more difficult for Russian borrowers to service their U.S. dollar loans. Accordingly, depreciation of the Rouble against the U.S. dollar may have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects and on the value of the Notes.

Fluctuations in credit spreads could negatively impact the Alfa Banking Group's results.

Changes in the prevailing credit spread environment over time could adversely affect the Alfa Banking Group's portfolios and cause the Alfa Banking Group to incur fair value adjustment losses in its consolidated statement of comprehensive income, adversely affecting the Alfa Banking Group's operating results. There can be no assurance that the Alfa Banking Group will be able to successfully manage the credit spread risk relating to its loan portfolio, the assets the Alfa Banking Group has warehoused for securitisation or other assets the Alfa Banking Group maintains on its balance sheet.

[6] Source: Central Bank of Russia

The preparation of the Alfa Banking Group's consolidated financial statements requires management to make judgments, estimates and assumptions and the accuracy of these estimates and assumptions could have a material impact on the Alfa Banking Group's consolidated financial statements.

The preparation of the Alfa Banking Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. The Alfa Banking Group's management believes that accounting for allowance for loan impairment, financial instruments, taxation, and other matters include judgments, estimates and assumptions inherent in the application thereof that are critical to an understanding of the Alfa Banking Group's financial statements. Actual results may differ from estimates, and such differences may be material. See Note 4 to the 2010 ABH Financial Consolidated Financial Statements for a discussion of these estimates and assumptions.

The judgments, estimates and assumptions that the Alfa Banking Group's management makes are based on information available at the time. Should circumstances change, the outcome may be materially different from what was envisaged at the time the judgments, estimates and assumptions were made. Should this occur, it could have a material adverse effect on the Alfa Banking Group's consolidated financial statements, including its reported profit and balance sheet.

The interests of Alfa Bank's principal shareholders may conflict with those of other shareholders and the relationship of those shareholders with the Government could have an adverse effect on the Alfa Banking Group's business, financial condition and results of operations.

Messrs. Mikhail Fridman, German Khan and Alexei Kuzmichev are the Alfa Banking Group's principal shareholders, indirectly holding or otherwise controlling approximately 36.47%, 23.27% and 18.12%, respectively, of ABH Holdings S.A.'s outstanding share capital as of the date of this Prospectus. The principal shareholders have exercised and will continue to be able to exercise significant control over the Alfa Banking Group's activities, collectively having the power to elect all of its directors and to determine the outcome of most matters to be decided by a vote of its shareholders. See "*Ownership*" and "*Description of the Alfa Banking Group*". Furthermore, there can be no assurance that the principal shareholders will continue to provide financial support to the Alfa Banking Group or that the principal shareholders may not have interests that differ from those of the Alfa Banking Group. As a result of their indirect ownership of a substantial percentage of the Alfa Banking Group's outstanding shares and their ability to influence the appointment of Alfa Bank's Board of Directors, the Alfa Banking Group's controlling shareholders may prevent the Alfa Banking Group from making certain decisions or taking certain actions that would benefit it. For example, the principal shareholders have interests in certain industrial sector companies. If any of these companies experience financial difficulties, then the principal shareholders could elect to provide additional funding to such companies through exercising their control over the Alfa Banking Group, which could adversely affect the Alfa Banking Group's financial condition, results of operations and/or prospects.

The Alfa Banking Group's IT systems may be insufficient to support its operations.

Although the Alfa Banking Group has been upgrading its IT systems for a number of years, these systems are currently less developed in certain respects than those of banks in more developed countries.

The Alfa Banking Group has implemented various information technology infrastructure developments programmes across its branch network and other business operations (see "*Description of the Alfa Banking Group–IT Infrastructure*"). The implementation of these new information technology systems has involved significant changes across a wide range of the Alfa Banking Group's operating activities and required the retraining of a significant number of the Alfa Banking Group's employees. The Alfa Banking Group's financial performance and its ability to meet its strategic objectives depend and will depend to a significant extent upon the functionality of its information technology systems and its ability to increase systems capacity. There can be no assurance that a disruption (even short term) to the functionality of the Alfa Banking Group's information technology systems or increased costs associated with such systems will not have a material adverse effect on the Alfa Banking Group's business, financial conditions or results of operations.

The Alfa Banking Group faces significant competition in Russia and other markets where it operates.

The Russian market for financial and banking services is highly competitive. The Alfa Banking Group faces competition from both domestic and foreign banks. According to the CBR, as of 1 January 2011, 1,012 credit organisations were operating in Russia[7]. In the Russian corporate banking market, the Alfa Banking Group principally competes with Sberbank, VTB, Russian Agricultural Bank, Gazprombank, Bank of Moscow, UniCredit Bank, Petrocommerce and Rosbank, as well as a number of other national and regional banks and certain of the world's largest international banks. In the investment banking sector, the Alfa Banking Group's primary competitors are Troika Dialog, Renaissance Capital, VTB and foreign investment banks. In the Russian retail banking market, the Alfa Banking Group's principal competitors are Sberbank, VTB 24, Raiffeisenbank, Bank of Moscow, Citibank, Russian Standard Bank, Home Credit and Finance Bank, as well as a number of other national and regional banks and Russian subsidiaries of foreign banks. In addition to facing competition in Russia, the Alfa Banking Group's subsidiaries, branches and representative offices elsewhere compete with national and/or international banks and non-banking credit organisations in the jurisdictions in which they operate.

Many of the banks with which the Alfa Banking Group competes in Russia, including, in particular, Sberbank and VTB and, with respect to the Alfa Banking Group's corporate lending activities, international universal banks, are larger and have greater capital resources available to them. In the jurisdictions in which the Alfa Banking Group operates outside of Russia, the Alfa Banking Group faces competition from larger, more established and better capitalised local financial institutions. In addition, deterioration of economic conditions in Russia and worldwide during the financial crisis forced Russian financial institutions to tighten their credit risk assessment criteria, which decreased a population of acceptable borrowers. At the same time and also as a result of deterioration of economic conditions during the financial crisis a number of borrowers reduced their business and/or growth plans which decreased to some extent their funding requirements. These and some other factors resulted in escalation of competition in the corporate lending market and contributed significantly towards continuing decline of interest rates on loans to corporate borrowers. Such decline has had, and may in the future have, a negative impact on the interest margin of the Alfa Banking Group.

If the Alfa Banking Group is unable to continue to compete successfully in the markets in which it operates and/or is unable to succeed in achieving its strategies of growth and expansion, this would have a material adverse effect on its business, financial condition and results of operations.

The competitive landscape in the Russian banking sector has shifted since the onset of the global financial crisis. Since the autumn of 2008, the growth in the Russian banking sector has decreased. A number of international banks have had to scale down their operations in an environment of growing liquidity constraints in the global and Russian credit markets. On the other hand, banks which are directly or indirectly owned by or affiliated with the Russian Federation, such as Sberbank, VTB, Russian Agricultural Bank and Gazprombank, received significantly larger amounts of funding from the Russian Federation than privately owned banks such as the Alfa Banking Group at the onset of the financial crisis in connection with the measures to support the Russian banking sector, have continued to add branches to their respective networks and have continued to engage in acquisitions of competitors and, as a result, have enhanced their dominance of the Russian banking sector. State owned or affiliated banks may continue to benefit from greater levels of Government funding and credit support than the Alfa Banking Group in the future, which could adversely affect the Alfa Banking Group's ability to compete with such banks.

Changes in the Alfa Banking Group's customer focus may have a material adverse effect on its business, financial condition or results of operations.

The Alfa Banking Group's strategy in the immediate future is, among other things, to focus on growing its corporate portfolio and client base and also growing its retail customer base and providing them with a full spectrum of banking services. In order to achieve this, the Alfa Banking Group is seeking to offer new lines of

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[7] Source: Central Bank of Russia

products, exploit cross-selling opportunities across its business segments, and continue modernisation of the Alfa Banking Group's information technology and management systems at all levels within its business divisions. There is a risk that budgeted capital expenditures may be inadequate for the Alfa Banking Group to achieve its stated strategies. Further, there is a risk that, despite significant amounts being spent, the Alfa Banking Group might fail to attract sufficient additional customers to allow it to recoup its significant investments in these areas of its business (see "*Operating and Financial Review of the Alfa Banking Group — Analysis by Segment*"). This could have an adverse impact upon the business, financial condition or results of operations of the Alfa Banking Group.

In addition, lending to small and medium-sized corporate clients, as well as retail customers, carries with it greater credit risk exposure. In particular, small and medium-sized corporate clients and retail customers typically have less financial strength than large companies and there often is less credit history available for such clients. Negative developments in the Russian economy could affect these borrowers more significantly than large companies. As a result, lending to these segments may represent a relatively higher degree of risk than lending to other groups, which may result in higher levels of past-due amounts. This, in turn, could result in higher levels of provisions for loan impairment, and thus lower capital adequacy ratios. Moreover, lending to small and medium-sized corporate clients and retail customers has required the implementation and application of credit policies and provisioning procedures that differ from those used for large corporate borrowers. The ability of the Alfa Banking Group to grow its customer base and expand its loan portfolio will depend upon continuing to implement successfully its credit policies and provisioning procedures, as well as capital growth, in order to maintain its capital adequacy requirements.

One of the Alfa Banking Group's key strategic initiatives is developing its presence in the retail lending market. While retail lending has historically been a small part of the Alfa Banking Group's business, amounting to only U.S.$2,286 million or 12.6% of its gross loans and advances to customers as of 31 December 2010, it plans to expand its retail lending business over the near-term and medium-term.

The Alfa Banking Group has invested a large amount of capital into its retail banking services, including the roll out of new products and services, investment in IT and infrastructure (including the expansion of its branch network) and training and support for the retail bank sales force, which negatively affected the retail banking segment results in 2008. In 2009, the retail banking unit was not profitable due to significant loan loss provisions and write-offs made as a result of the economic downturn in Russia. Although the retail banking unit was profitable in 2010, increases in default rates, loan losses and other factors that may result from another downturn in the economy could jeopardise the financial condition of the unit. In addition, the retail lending sector is more susceptible to fraud than the Alfa Banking Group's commercial or investment banking business and the system of credit bureaus in Russia is not fully developed. This, combined with a lack of reliable data on fraud levels within Russia, particularly in the regions, represents an increased risk for the Alfa Banking Group's retail portfolio. Any failure to control fraud in the Alfa Banking Group's retail lending portfolio could erode margins and could negatively affect the Alfa Banking Group's financial condition. Lastly, the Alfa Banking Group faces significant competition in the retail lending sector. A number of Russian and foreign lenders offer such services, have a much longer track record of successful retail lending operations, and greater access to larger sources of lower cost funds. It may be difficult or financially prohibitive for the Alfa Banking Group to become a successful competitor in this market and capture significant market share. The failure of the Alfa Banking Group to respond appropriately to any of the risks set forth above could have an adverse impact upon its business, financial condition or results of operations.

The Alfa Banking Group could suffer damage to its reputation that would lead clients to withdraw their business.

To attract and retain clients, the Alfa Banking Group depends to a large extent on its relationships with existing clients and its reputation for integrity and high-quality professional services. As a result, if a client is not satisfied with the Alfa Banking Group's service, the damage the Alfa Banking Group suffers may be greater than simply the loss of that client's future business. Any negative publicity, including factually inaccurate negative publicity, could damage the Alfa Banking Group's reputation, cause existing clients to withdraw their business and potential

customers to use the Alfa Banking Group's competitors and lead to greater regulatory scrutiny. Negative publicity could arise from any number of sources, including litigation, press speculation, employee misconduct, operational failures and current and future investigations by regulatory authorities. The Alfa Banking Group could also experience negative publicity and reputational damage as a result of the misconduct of its distribution partners or intermediaries they work with, its joint venture partners or acquired businesses.

The Alfa Banking Group's banking business entails operational risks.

The Alfa Banking Group is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, mismanagement, unauthorised transactions by employees and operational errors. The Alfa Banking Group's ability to operate its business depends on its ability to protect the computer systems and databases which the Alfa Banking Group operates and uses from the intrusion of third parties who may attempt to gain access to the Alfa Banking Group's computer systems, networks or databases through the internet or otherwise. Although the Alfa Banking Group believes that its computer systems, networks and databases are well protected from unauthorised intrusion by a range of both physical and programming measures, given the potential technical and financial resources of intruders, full assurance cannot be given that its computer systems, networks and databases will not suffer from such attacks in the future. There can be no assurances that the Alfa Banking Group will be able at all times to successfully monitor and prevent these risks in the future. This could materially adversely affect the Alfa Banking Group's business, financial condition or results of operations.

Notwithstanding the above, the Alfa Banking Group believes that its financial systems are sufficient to ensure the Issuer's compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

Employee misconduct is difficult to deter and detect and could harm the Alfa Banking Group's reputation and business.

The Alfa Banking Group faces the risk of loss due to its employees' lack of knowledge or wilful violation of laws, rules and regulations or other misconduct. Misconduct by employees happens in the financial services industry and could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines as well as serious reputational or financial harm. Misconduct by employees, including violation of the Alfa Banking Group's own internal risk management policies, could also include binding it to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. It is not always possible to deter employee misconduct and ensure the Alfa Banking Group's risk management policies are followed, and the precautions the Alfa Banking Group takes to detect such activity may not be effective. The direct and indirect costs of employee misconduct can be substantial and could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations or prospects.

Should Mr. Khvesyuk get disqualified from the position of the Chairman of the Executive Board, this could affect Alfa Bank's operations

In September 2010, the Krasnodar Region branch of the Department of Consumer Protection of Russia (*Rospotrebnadzor*) (the "**Department**") found Alfa Bank in violation of the consumer protection laws and issued a directive ordering Alfa Bank to fix the violation (the "**First Directive**"). The nature of the alleged violation of consumers' rights was the inclusion by Alfa Bank of a forum selection clause in its consumer loan agreement form, which had the effect of consumers consenting to the adjudication of potential disputes by a court in the City of Moscow. Alfa Bank complied with the First Directive by amending its forum selection clause. However, the Department considered these amendments to be insufficient to comply with the First Directive. As a result, in November 2010 the Department issued the second directive (the "**Second Directive**") urging Alfa Bank to comply with the First Directive. Subsequently, the Department filed a complaint against Alfa Bank with a district court in Krasnodar for failure to comply with the Second Directive.

In January 2011, while the hearing with respect to the Second Directive was pending, the Department issued another directive (the "**Third Directive**"), which ordered Alfa Bank and its Chairman of the Executive Board, Mr

Khvesyuk, to comply with the prior directives. Subsequently, the Department commenced an inspection of Alfa Bank's Krasnodar Region branch. Based on the results of the inspection, the Department established that Alfa Bank was not in compliance with the prior directives.

In February 2011, the judge in Krasnodar found the Second Directive to be illegal and dismissed the case against Alfa Bank.

In March 2011, based on the results of the January inspection and the failure of Alfa Bank and Mr. Khvesyuk to comply with the Third Directive, the Department filed a claim with a district court in Krasnodar seeking to disqualify Mr. Khvesyuk from his current position as the Chairman of the Executive Board for a repeated failure to comply with the orders of a governmental agency. Alfa Bank filed a motion to remove the case against Mr. Khvesyuk from Krasnodar to a court in the Moscow Region where Mr. Khvesyuk resides, which motion was granted. The new hearing date has not been scheduled yet.

Alfa Bank intends to defend Mr. Khvesyuk vigorously and believes that the case should be dismissed on procedural grounds similar to those in the case against Alfa Bank in January 2011. Nevertheless, should the court disqualify Mr. Khvesyuk from his position as the Chairman of the Executive Board, this could affect Alfa Bank's operations, although as at the date of this Prospectus it is not possible to accurately quantify what effect, if any, this could have on the financial position or profitability of Alfa Bank, ABH Financial or the Alfa Banking Group.

The Alfa Banking Group may lose the benefit of personal relationships belonging to its senior management and controlling shareholders, which play an important role in its business.

To a significant extent, the business environment in Russia depends on goodwill among individuals and the personal connections and relationships of certain members of the Alfa Banking Group's senior management and the Alfa Banking Group's controlling shareholders are important to the conduct of Alfa Banking Group's business. Such relationships allow the Alfa Banking Group to develop business with companies, which may not otherwise be predisposed towards the Alfa Banking Group. In addition, personal relationships play an important part in maintaining good relations with the government. No assurance can be given that members of senior management who possess such relationships will successfully maintain them or that such members of senior management will remain with the Alfa Banking Group. Similarly, no assurance can be given that shareholders with such relationships will maintain them or continue to hold material interests in the Alfa Banking Group. The loss of such relationships could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations or prospects.

The Alfa Banking Group may be unable to recruit or retain experienced and/or qualified personnel.

The Alfa Banking Group's growth depends in part, on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel in Russia. The Alfa Banking Group credits a significant part of its success to recruiting high-calibre international and Russian management and employees with international qualifications and relevant international experience. However, its ability to continue to attract and retain such people in large part is dependent upon the continued growth of the Russian economy and the Russian banking system. Further volatility in the Russian economy or the banking system may adversely impact its ability to continue to recruit and retain high-calibre staff at all levels.

In addition, the emergence of other Russian banks and foreign banks and financial institutions in Russia and the other regions in which the Alfa Banking Group operates not only represents an increase in competition for business but an increased competition in the specialised financial services employment markets. There is a risk that current employees of the Alfa Banking Group will be recruited by other employers in coming years. The loss of managers or key staff of the Alfa Banking Group or the inability of the Alfa Banking Group to attract and retain other qualified personnel could have a material adverse effect on the business, financial condition or results of operations of the Alfa Banking Group.

Competition in the Russian banking industry for personnel with relevant expertise is intense, due to the relatively small number of available qualified individuals. To recruit qualified and experienced employees and to minimise

the possibility of their departure to other banks, the Alfa Banking Group provides compensation packages and long term motivation programmes consistent with evolving standards in the Russian labour market. However, the inability to recruit and retain qualified and experienced personnel in Russia or manage the Alfa Banking Group's current personnel successfully could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations or prospects.

Certain interested party transactions of Russian banks in the Alfa Banking Group require the approval of disinterested directors or disinterested shareholders.

Russian law requires a joint stock company that enters into transactions with certain related persons that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" includes: (1) any member of the board of directors or the collegiate executive body of a company, (2) its chief executive officer (including managing organisation or hired manager), (3) any person who, together with its affiliates, owns at least 20% of a company's voting shares or (4) a person who has the legal right to give mandatory instructions to a company, if any of the above listed persons, or a close relative or affiliate of any such person, is, in each case:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative, intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
- in other cases, stipulated by the company's charter.

Under applicable Russian law, interested party transactions require approval by a majority of the disinterested directors or disinterested shareholders of the company. A majority vote of the disinterested shareholders of the company is required if (a) the number of disinterested directors is less than the required quorum for board of directors (supervisory council) meetings, (b) the value of the transaction (or of a number of interrelated transactions) is equal to or exceeds 2% of the balance sheet value of the company's assets (determined under Russian Accounting Standards ("**RAR**") in accordance with its latest balance sheet) or (c) the transaction (or a number of interrelated transactions) involves the issuance or sale by the company of ordinary shares or securities convertible into such shares, in an amount exceeding 2% of the company's issued ordinary shares. Failure to obtain the appropriate approval for a transaction may result in it being declared invalid upon a claim by the company or any of its shareholders.

Transactions between Alfa Bank and its subsidiaries and affiliates may be considered interested party transactions.

The relationship of the Alfa Banking Group with the Alfa Consortium may not coincide with the interests of the Noteholders.

In terms of both funding and revenues, the Alfa Banking Group historically has been reliant to a certain extent upon the Alfa Consortium, although the Alfa Banking Group has reduced this reliance significantly over recent years (see "*Related Party Transactions*"). The Alfa Banking Group has two primary types of exposure to the Alfa Consortium, namely the loans and other credit related commitments (including guarantees it makes on behalf of members of the Alfa Consortium) and the funding received from the Alfa Consortium.

As of 31 December 2010, the Alfa Banking Group's loans and advances to customers included balances outstanding from related parties representing 7.9% and 5.0% of gross loans to customers and total assets respectively, compared to 5.8% and 4.0% as at 31 December 2009. The Alfa Banking Group's credit related commitments to related parties amounted to 7.6% of total credit related commitments as of 31 December 2010, compared to 4.0% as at 31 December 2009. After the Alfa Banking Group restructured its Ukrainian operations in

August 2006, the Alfa Banking Group started to treat its exposure to the ABH Ukraine Group as a related party transaction. As of 31 December 2010, the Alfa Banking Group's on-balance sheet exposure to ABH Ukraine Group (including trading securities of U.S.$22 million, investment securities available for sale of U.S.$4 million, correspondent accounts of U.S.$2 million, term placements of U.S.$281 million (including U.S.$248 million of subordinated loans) and other receivables of U.S.$93 million) through related party transactions amounted to U.S.$402 million, and credit related commitments to ABH Ukraine Group amounted to U.S.$40 million. Furthermore, the Alfa Banking Group is contemplating disposing of its interest in Amsterdam Trade Bank N.V. ("**ATB**") (total assets as at 31 December 2010 were approximately €2.5 billion) to other companies within the Alfa Consortium and no assurance can be given that such a disposal will be on arm's length terms.

The amount of customer accounts maintained by the Alfa Banking Group with respect to related parties totalled U.S.$1,927 million as of 31 December 2010, which was 11.5% of the total customer accounts of the Alfa Banking Group and U.S.$1,765 million and 12.9%, respectively, as at 31 December 2009. See "*Related Party Transactions*". Moreover, the CBR regulates Alfa Bank's exposure to certain related parties. See "*The Banking Sector and Banking Regulation in the Russian Federation*".

Acceleration in the Alfa Banking Group's indebtedness or deterioration in the Alfa Banking Group's business or financial results may result in the Alfa Banking Group being unable to support the interests of the Noteholders.

As at 31 December 2010, Alfa Bank has the following outstanding publicly traded debt obligations raised outside of the Russian Federation (a) two series of notes in the aggregate principal amount of U.S.$900 million under its Euro Medium Term Note Programme (the "**EMTN Programme**"), (b) a standalone euro medium-term notes issue in the principal amount of U.S.$600 million, (c) a subordinated debt issue in the aggregate principal amount of U.S.$300 million, (d) the issuance of a number of series of notes in the principal amounts of U.S.$132 million and €82.25 million under its Diversified Payment Rights Secured Debt Issuance Programme (the "**DPR Programme**") and (e) loan participation notes in the principal amount of U.S.$1,000 million (collectively, the "**Alfa Bank Indebtedness**"). Except in the case of the subordinated debt issue, the Alfa Bank Indebtedness is unconditionally guaranteed by ABH Financial.

If Alfa Bank ceases to be controlled (directly or indirectly) by ABH Financial and certain other conditions are met, then portions of the Alfa Bank Indebtedness may become due and payable, which, in turn, may have a negative impact on the Alfa Banking Group's ability to support the Issuer's obligations under the Notes.

It is possible that if the business or financial results of one or more entities within the Alfa Banking Group were to deteriorate, the overall financial stability of the Alfa Banking Group would weaken and the rating of Alfa Bank and/or the Notes may be downgraded, which, in turn, may adversely impact the Alfa Banking Group's ability to support the Issuer's obligations under the Notes.

ABH Financial has other subsidiaries in addition to Alfa Bank that are involved in various business operations, including investment banking. There is no assurance that ABH Financial's other business operations will continue to be profitable. To the extent that ABH Financial's subsidiaries, other than Alfa Bank, generate losses, this may impede ABH Financial's ability to fulfil its commitments under the ABH Financial Deed of Guarantee.

The Alfa Banking Group may fail to effectively identify or execute strategic acquisitions or investments, and if the Alfa Banking Group were to pursue such transactions it may fail to successfully integrate them into or realise anticipated benefits to its business in a timely manner.

The Alfa Banking Group may selectively pursue opportunities to acquire or make investments in businesses, products, technologies or innovations, which complement its business and strategy. The Alfa Banking Group may not be able to identify suitable acquisitions or investments, or if the Alfa Banking Group does, it may not be able to complete any transaction on acceptable terms, or at all. Any acquisitions or investments the Alfa Banking Group may pursue in the future could entail risks, including:

- difficulties in realising cost, income or other anticipated benefits or synergies from the acquired entity or investment, including the loss of key employees or intellectual property from the acquired entity or investment;
- costs of executing the acquisition or investment, including financial costs, business disruption and increased management attention;
- potential for undermining the Alfa Banking Group's strategy, customer relationships or other elements critical to the success of the Alfa Banking Group's business;
- inadequate due diligence or errors in valuation or assessment of the acquisition or investment;
- liabilities or losses resulting from the Alfa Banking Group's control of the acquired entity or investment, including inherited legal claims; and
- difficulty integrating the acquired business, including difficulty in adapting acquired technology to the Alfa Banking Group's own systems.

If the Alfa Banking Group pursues acquisitions or investments in the future and experiences any of the above or other difficulties, its business, results of operations or financial condition could be materially adversely affected.

The Alfa Banking Group may be unable to meet its regulatory requirements relating to capital adequacy.

Alfa Bank is required by the CBR to have a minimum RAR-based standalone capital ratio of 10%. In addition, the Basel Committee on Banking Supervision recommends a minimum risk-based capital ratio of 8%, calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (the "**Basel Accord**"). Alfa Bank's RAR-based stand-alone capital ratio as at 31 December 2010 was 13.75%, which exceeded the minimum required by the CBR. The Alfa Banking Group's risk-based total capital ratio, calculated in accordance with the Basel Accord, decreased from 20.2% as of 31 December 2009 to 18.2% as of 31 December 2010. Over the same period, the Alfa Banking Group's Tier I capital ratio decreased from 13.1% to 12.6%. Both capital ratios exceed the minimum risk based capital ratio recommended by the Basel Accord. Capital ratios decreased during the year ended 31 December 2010 due to an increase in risk weighted assets mostly caused by a significant increase in the size of the loan portfolio.

The Alfa Banking Group's current high capital adequacy level may decrease organically with the growth of business or the payment of dividends. In addition, the risk-adjusted capital guidelines promulgated by the Basel Accord, which forms the basis for the capital adequacy guidelines of the National Research Centre (together, "**Basel II**"), are being implemented in certain jurisdictions including member states of the European Union. Although the CBR stated its intention to implement Basel II for the Russian banking sector as early as in 2004, the implementation of Basel II in Russia has not occurred to date and the CBR has not yet developed any instruments that would stimulate the Russian banking sector to adapt its risk management standards to come further in line with Basel II. Also, the effect that these revised guidelines will have on the capital requirements of the Russian banks in the Alfa Banking Group and on their capital position is uncertain. If any future alterations to the capital adequacy standards under Basel II (or CBR regulations implementing Basel II) with regard to limits on the deployment and use of capital require the Russian banks of the Alfa Banking Group to maintain higher capital levels or limit the use of significant portions of their capital, this could adversely affect the Alfa Banking Group's business, financial condition, results of operations or prospects.

In December 2010, the Basel Committee published a revised set of guidelines ("**Basel III**"). Although the minimum risk-based capital ratio under Basel III remains at 8%, the minimum common equity ratio will increase from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments) and the total Tier 1 capital requirement, which includes common equity and other qualifying financial instruments, will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity requirements to 7%. If there is an excess credit growth in any given country resulting in a system-wide build-up of risk, banks will be required to maintain an additional

countercyclical buffer within a range of 0% to 2.5% of common equity (or possibly other fully loss-absorbing capital). The implementation of Basel III in Russia will begin on 1 January 2013. The effect that these revised guidelines will have on the capital requirements of the Alfa Banking Group and on its capital position is uncertain.

Requirements imposed by regulators, including capital adequacy requirements, are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom the Alfa Banking Group deals. Consequently, these regulations may limit the Alfa Banking Group's activities, including its lending, and may increase the Alfa Banking Group's costs of doing business, or require the Alfa Banking Group to seek additional capital in order to maintain CBR capital adequacy requirements or different varieties of funding to satisfy the CBR's liquidity requirements. In addition, a breach of regulatory guidelines in the Russian Federation could expose the Alfa Banking Group to potential liability and other sanctions, including the loss of its general banking licence.

Failure of the Alfa Banking Group to comply with various corporate law and regulatory requirements may have a material adverse effect on its business, financial condition and results of operations.

Members of the Alfa Banking Group or their predecessors-in-interest have at different times taken a variety of actions relating to share issuances, share disposals and acquisitions, valuations of property, interested party transactions, major transactions, meetings of the Alfa Banking Group members' governing bodies, other corporate matters and antimonopoly issues which, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or shareholders of the relevant Alfa Banking Group members or their predecessors-in-interest, could result in the invalidation of such transactions and the relevant Alfa Banking Group members' corporate decisions, restrictions on voting control or the imposition of other liabilities. Because, for example, the various laws applicable to the Alfa Banking Group are subject to many different interpretations, there can be no assurance that the Alfa Banking Group would be able to successfully defend itself against any challenge brought against such transactions or corporate decisions, and the invalidation of any such transactions or decisions or the imposition of other liabilities may, individually or in the aggregate, have a material adverse effect on the Alfa Banking Group's business, financial condition and results of operations.

Furthermore, the Alfa Banking Group's operations are subject to regulation by various government and banking authorities in various jurisdictions in connection with obtaining and renewing various licences and permits, as well as with ongoing compliance with existing laws and regulations and with the terms and conditions of the Alfa Banking Group's licenses and permits. Changes in the nature of such regulation in Russia or other jurisdictions where the Alfa Banking Group operates could limit the ability of the Alfa Banking Group to execute its growth strategy and/or could adversely affect its existing business and results of operations.

Regulatory authorities in Russia and other CIS countries exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licenses, permits, approvals and authorisations. Regulatory authorities have the right to, and frequently do, conduct periodic inspections of the Alfa Banking Group's operations and properties throughout the year. Any such future inspections may determine that the Alfa Banking Group violated laws, decrees or regulations, and the Alfa Banking Group may be unable to refute such determination or remedy the violations. The Alfa Banking Group's failure to comply with existing or future laws and regulations, the terms and conditions of its licenses and permits, or the findings of governmental inspections may result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of the Alfa Banking Group's licenses, permits, approvals and authorisations, or in requirements that the Alfa Banking Group cease certain of its business activities, or in criminal and administrative penalties applicable to its officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of the Alfa Banking Group's operations, could increase its costs and materially adversely affect its business, financial condition and results of operations.

Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities and the regulatory structure governing the Alfa Banking Group's operations is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted

could change and new laws or regulations could be adopted. Additionally, as a result of the global financial crisis, certain regulations have been relaxed in order to moderate the effects of the crisis on Russian banks. There can be no assurance that there will not be a strengthening of regulation as a preventative measure against the reoccurrence of a similar crisis in the future. If the enforcement or interpretation of existing regulations were to change or if future regulations were imposed, this could have an adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

The revocation of Alfa Bank's existing licence by the CBR would have a material adverse effect on the Alfa Banking Group's business, financial condition or results of operations.

Currently, all banking and various related operations performed by banks in Russia require a banking licence from the CBR. Alfa Bank has the required licence in connection with its banking activities. The CBR is the only body that is authorised to suspend or revoke a banking licence of a credit organisation for breach of any applicable banking regulations or non-compliance with mandatory economic ratios and reserve requirements set out by the CBR. If the CBR were to suspend or revoke Alfa Bank's general banking licence, then this would result in Alfa Bank's inability to perform any banking operations (including processing payments of its customers) and/or in a winding-up of its business (whether by way of bankruptcy proceedings or liquidation). If Alfa Bank's licence were to be revoked, it would have a material adverse effect on its business, financial condition or results of operations.

Involvement in any transactions with Iran might result in the imposition of sanctions by OFAC

The U.S. government has imposed economic sanctions against Iran, and these are set forth in regulations found at 31 CFR Part 560 (the "**ITR**"). The application of the ITR is administered by the U.S. Department of the Treasury, Office of Foreign Assets Control ("**OFAC**"). The ITR and other similar regulations contain broad sanctions against transactions by U.S. persons with OFAC-designated countries, including Iran.

In June and July 2007, certain news sources reported that the Alfa Banking Group served as primary financial agent for an Iranian nuclear power project and had been involved in financing the Iranian aviation industry. In response to these reports, the Alfa Banking Group issued a press release (the "**Alfa Press Release**") on 10 August 2007 stating that the specific allegations contained in the reports were erroneous. The Alfa Press Release indicated that, although the Alfa Banking Group maintains a client relationship with Atomstroieksport (a company owned and controlled by the Russian Federation that had a contractual relationship with the Iranian Atomic Energy Organisation), neither the Alfa Banking Group nor any of its subsidiaries had any direct client relationship with any Iranian entity (public or private) that is a component of the Iranian nuclear development programme. The Alfa Press Release further indicated that, although Alfa Bank Ukraine (which is not currently a subsidiary of Alfa Bank or a member of the Alfa Banking Group) had a client relationship with the Kharkov State Aviation Manufacturing Company (a company owned and operated by the government of Ukraine), neither the Alfa Banking Group nor any of its subsidiaries had ever had a direct client relationship with the Iranian aviation industry. Finally, the Alfa Press Release stated that Mikhail Fridman had never played any role in any transaction with the Iranian government's nuclear programme or the Iranian aviation industry.

The Alfa Banking Group has not independently verified information regarding its competitors and official data from the Russian Government agencies and the CBR.

The Alfa Banking Group has derived substantially all of the information contained in this Prospectus concerning its competitors from publicly available information, and it has relied on the accuracy of this information without independent verification. In addition, some of the information contained in this Prospectus has been derived from the official data of the Russian Government agencies and the CBR. The official data published by Russian federal, regional and local governments is substantially less complete or researched than those of Western countries, and the veracity of some official data released by the Russian Government may be questionable. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Due to the ambiguities in the recently adopted the Insider Trading Law, trading of securities and other financial instruments by the Alfa Banking Group may inadvertently violate restrictions imposed by the law

On 30 July 2010, a new law "On Counteracting the Abuse of Inside Information and Market Manipulation and Amendment of Certain Legislative Acts of the Russian Federation" No. 224-FZ (the "**Insider Trading Law**") was adopted. The restrictions imposed by the Insider Trading Law prohibit the disclosure of any price-sensitive non-public information ("**Inside Information**") to third parties and the use of Inside Information in connection with any trading of securities, commodities, currency or other financial instruments admitted to trading on a Russian stock exchange. A number of the provisions of the Insider Trading Law are vague and might be subject to varying interpretation by courts and state authorities. In particular, the Insider Trading Law does not recognise the concept of information barriers, or Chinese walls, for limiting information exchange within an organisation between employees making investment decisions and the employees possessing information that may affect such decision-making.

As part of the Alfa Banking Group's business, it not only provides financing and offers investment banking and other services to publicly traded companies but also invests in securities for its own account for trading purposes or as part of its treasury operations. Accordingly, should one part of the Alfa Banking Group come in possession of Inside Information about a publicly traded company, whilst another part of the Alfa Banking Group independently enter into a trade with respect to the securities of such company, the Alfa Banking Group might be considered by the authorities to be in violation of the Insider Trading Law. This, in turn, could result in the imposition of certain civil, administrative and other sanctions on the Alfa Banking Group and could have a material adverse effect on its business, financial condition or results of operations.

Risks Relating to Russia and the CIS

Most of the business of the Alfa Banking Group and a majority of its assets are located in Russia and the CIS. There are certain risks associated with investments and operations in Russia and the CIS. The following are some non-exhaustive examples.

General Business Risks

Emerging markets such as Russia are subject to greater risks than more mature markets, including significant political, economic and legal risks.

Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more mature markets, including in some cases significant political, economic and legal risks. Investors should also note that emerging economies such as economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity and debt markets of all emerging market countries as investors move their money to more stable, developed markets. The Russian markets have been highly volatile in 2008 due to the global financial crisis. Such volatility has caused the market regulator and the stock exchanges themselves to temporarily suspend trading on the MICEX and RTS stock exchanges a number of times. The MICEX and RTS stock exchanges have experienced significant overall declines since the beginning of the financial crisis in 2007. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate.

Political Risks

A worsening of the political climate in the Russian Federation may have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a market-oriented economy. Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts among executive, legislative and judicial authorities, which negatively affected the Russian Federation's business and investment climate.

The most recent State Duma elections, held in December 2007, resulted in a further increase in the share of the aggregate vote received by the pro-presidential party, United Russia, mainly due to the influence of Vladimir Putin. The remaining seats were distributed between the pro-presidential party, Fair Russia, the Liberal Democrats and the Russian Communist Party. The next elections to the State Duma are scheduled for December 2011.

On 2 March 2008, presidential elections were held in the Russian Federation, which resulted in Dmitry Medvedev being elected the President of the Russian Federation, having received 70.28% of the total votes. On 8 May 2008, Dmitry Medvedev appointed Vladimir Putin, the Russian Federation's former President, to the position of Prime Minister of the Russian Federation. Vladimir Putin and Dmitry Medvedev have maintained the stability of the Government and introduced policies generally oriented towards the continuation of economic reforms. The next Presidential elections will take place in 2012. However, the Alfa Banking Group cannot assure prospective investors that there will be no material changes to Government policies or to economic or regulatory reforms in the near future. Any change in the Government's programme of reform in Russia could lead to a deterioration in Russia's investment climate that might limit the ability of the Alfa Banking Group to obtain financing in the international capital markets or otherwise have a material adverse effect on the Alfa Banking Group's business, financial condition or results of operations.

The actions of Russian legislative, executive and judicial authorities can affect the Russian securities market as well as banks and other businesses operating in Russia. In particular, the events surrounding claims brought by the Russian authorities against several major Russian companies, have led to questions being raised regarding the progress of market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy, over and above the general market turmoil recently. Any similar actions by the Russian authorities, which result in a further negative effect on investor confidence in Russia's business and legal environment could have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities, including the Notes.

Domestic and regional political conflicts could create an uncertain operating environment that could adversely impact the Alfa Banking Group's business and hinder its long-term planning ability.

The Russian Federation consists of 83 regions ("**subjects**") of the federation, some of which exercise considerable autonomy in their internal affairs. In certain areas, the division of authority between federal and regional governmental authorities remains uncertain. The lack of consensus between local and regional authorities and the federal governmental authorities may result in political instability and may have a material adverse effect on the Alfa Banking Group's business, financial condition, prospects or ability to fulfil its financial obligations. However, the recent amendments to Russian legislation whereby heads of regions are nominated by the President of the Russian Federation and appointed by regional legislatures (instead of direct election by the population) are designed to minimise conflict between federal and regional authorities and secure stability across the Russian Federation.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, both internally and with other countries. Various acts of terrorism have been committed in population centres within the Russian Federation. The risks associated with these events or potential future events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation (e.g. bombings in Domodedovo airport in Moscow in January 2011). In particular, as the Russian

Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts causing disruptions of Russian oil and gas exports could negatively affect the Russian economy. The results of such conflicts and actions could have a material adverse effect on the Alfa Banking Group's business, financial condition and results of operations or prospects.

Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of the Alfa Banking Group's assets.

Although the Russian government has enacted legislation to protect property against expropriation and nationalisation and to provide fair compensation to be paid if such events were to occur, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and sufficient mechanisms to enforce judgments.

The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Alfa Banking Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian Government decides to nationalise or expropriate some or all of the Alfa Banking Group's assets. The expropriation or nationalisation of any of the Alfa Banking Group's or its respective shareholders' assets without fair compensation may have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations or prospects.

Lack of investor confidence in Russia or the other markets in which the Alfa Banking Group operates may have an adverse effect on the Alfa Banking Group's ability to attract future capital, as well as on its financial condition and prospects.

The availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole. Any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could adversely affect the price or availability of funding for entities within any of these markets, including members of the Alfa Banking Group.

If the Russian Federation were to return to heavy and sustained inflation, the Alfa Banking Group's results of operations could be adversely affected.

According to Government estimates, the inflation rate (**"CPI"**) in the Russian Federation was approximately 19% in 2001, 15% in 2002, 13% in 2003, 12% in 2004, 11% in 2005, 9% in 2006, 11.9% in 2007, 13.3% in 2008, 8.8% in 2009 and 8.8% in 2010[8]. Any return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and erosion of consumer confidence. Any one of these events could lead to decreased demand for the Alfa Banking Group's products and services and, consequently, have an adverse effect on the Alfa Banking Group's business, financial condition, results of operations and/or prospects.

The official data upon which prospective investors may base their investment decision has not been independently verified by the Alfa Banking Group and may not be as reliable as equivalent data from official sources in the OECD countries.

Official statistics and other data published by the CBR, Russian federal, regional and local governments, and federal agencies may be substantially less complete or researched and, consequently, less reliable than those published by comparable bodies in other jurisdictions. Accordingly, the Alfa Banking Group cannot assure prospective investors that the official sources from which the Alfa Banking Group has drawn some of the information set out herein are reliable or complete. Russian state entities may produce official statistics on bases different from those used by comparable bodies in other jurisdictions. In addition, the Alfa Banking Group has derived substantially all of the information contained in this Prospectus concerning its competitors from publicly available information, and it has relied on the accuracy of this information without independent verification. Any

[8] Source: Russian Federal State Statistics Service

discussion of matters relating to Russia herein may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Economic Risks

Instability of the Russian economy.

Since the dissolution of the Soviet Union in 1991, Russia has experienced:

- significant declines in gross domestic product;
- hyperinflation or high levels of inflation;
- an unstable currency;
- high levels of state debt relative to gross domestic product;
- crises in the banking sector limiting the ability of banks to provide liquidity to Russian enterprises;
- a large number of loss-making enterprises that continue to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of "black" and "grey" market economies;
- pervasive capital flight;
- high levels of government corruption and the penetration of organised crime and government into the economy;
- political and social instability;
- over-dependence of the economy on export of commodities, in particular oil and metals;
- significant declines and volatility in the stock market;
- significant increases in unemployment and under-employment;
- the impoverishment of a large portion of the Russian population;
- a declining population and short life-expectancy; and
- outdated and deteriorating physical infrastructure.

The Russian economy has been subject to abrupt downturns. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian Government defaulted on its Rouble denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

The positive trends in the Russian economy in recent years, such as increases in gross domestic product, a relatively stable currency and a reduced level of inflation, have been partially reversed as a consequence of the current global financial and economic crisis. Moreover, due to the Russian economy’s reliance on revenue from oil and other commodities, in 2008 the Russian Government made reductions in state spending and a reduction in the

state budget revenues and expenditures as a result of the decrease in oil prices and prices of other commodities, which, along with other factors, have contributed to a significant devaluation of the Rouble against the U.S. dollar and euro in the second half of 2008 and the beginning of 2009. Such devaluation of the Rouble against the major currencies could have an adverse effect on the Russian economy and/or the Alfa Banking Group's business, financial condition, results of operations and prospects.

Instability of the Russian banking system could have a material adverse effect on the Alfa Banking Group's business, financial condition or results of operations.

In the period from May to July 2004, the Russian banking sector experienced its first significant disruption since the financial crisis of August 1998, following the revocation by the CBR of the banking licences of several Russian banks. These revocations resulted in a contraction in the Russian interbank market, which had a negative impact on the liquidity of certain banks. The revocation of certain banks' banking licences, combined with market rumours, led to sudden withdrawals of deposits by both retail and corporate customers from certain banks, which, in turn, further reduced liquidity. Although the Alfa Banking Group did experience deposit withdrawals at this time, this turmoil ultimately did not have a material adverse effect on the Alfa Banking Group's business. However, no assurances can be given that the Alfa Banking Group will not, in the event of any future disruptions, face losses as a result of the bankruptcy of other Russian banks or their inability to perform their obligations. In addition, the Alfa Banking Group may be affected by consequential defaults of corporate customers that suffer from the problems faced by other Russian banks or if similar disruption in the banking sector occurs in the future and affects the overall economic situation in Russia. In the event of future instability in the Russian banking sector, the Alfa Banking Group's customers could withdraw some or all of their deposits more quickly than anticipated by the Alfa Banking Group, which could have a material adverse effect on the Alfa Banking Group's liquidity, business, financial condition or results of operations.

Downturns in the global financial markets and global economic crises may have an adverse effect on the Russian economy and on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Russia's economy has been adversely affected by the current global financial and economic crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. Since mid-September 2008, adverse developments in the financial markets outside the Russian Federation and an increase in the perceived risks associated with investing in emerging economies have resulted in further reductions in the levels of foreign direct and portfolio investment in the Russian Federation that had already been weakened by other developments and have otherwise adversely affected the Russian economy. In particular, because the Russian Federation produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market. There has been a dramatic decrease in the price of oil since it reached its peak in the summer of 2008, resulting in sharp decreases in Government revenues, which in turn has had a significant negative impact on the Russian economy. These developments could adversely affect the Russian Government's ability to provide financial support to Russian banks, including the Alfa Banking Group and could adversely affect the Alfa Banking Group's business, financial condition, results of operations and prospects.

In addition, military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity markets. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on the international financial and commodities markets and the global economy. As Russia produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts, or politically motivated acts of Government, causing disruption of Russian oil and gas exports could negatively affect the Russian economy and thereby adversely affect the Alfa Banking Group's business, results of operations, financial condition or prospects.

Exchange rates, exchange controls and repatriation restrictions could adversely affect the value of investments in the Russian Federation.

The Rouble remains largely non-convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. According to the CBR, foreign currency and gold reserves fell from approximately U.S.$597.0 billion on 1 August 2008 to U.S.$384.1 billion on 1 March 2009. Such reserves increased to U.S.$447.7 billion by 1 December 2009 and to U.S.$479.3 billion by 1 January 2011, but are still likely to fluctuate going forward[9]. Although Russia's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. The lack of growth of the Russian currency market in the medium or long term may adversely affect the Alfa Banking Group's business, financial condition and results of operation.

Russia's physical infrastructure is in poor condition, which could disrupt normal business activity.

Russia's physical infrastructure is in very poor condition and largely dates back to Soviet times. It has not been adequately funded and maintained over the past decade and may cause disruptions in normal business activities. Particularly affected are pipeline, rail and road networks, power generation and transmission systems and communication systems. With a view to increasing capital inflows and private investment into Russia's physical infrastructure, the Government has launched a number of infrastructure modernisation programmes such as a large scale reform of the electricity sector. However, there is uncertainty in the current economic environment as to the extent to which such programmes will be realised. Such reforms, if realised, are likely to result in increased charges and tariffs, but may fail to generate the anticipated capital investment needed to repair, maintain and improve these systems. The continued deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in the Russian Federation and may interrupt business operations, any of which could have a material adverse effect on the Alfa Banking Group's business, results of operations, financial condition or prospects.

Crime, corruption and social instability could disrupt the Alfa Banking Group's ability to conduct business and could materially adversely affect its business, financial condition, results of operations and prospects. Levels of organised criminal activity continue to be significant in Russia. The Russian and international press have reported high levels of corruption in the Russian Federation, including the bribing of officials for the purpose of initiating investigations by government agencies. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in exchange for payment. The Alfa Banking Group's business, financial condition, results of operation or prospects and the value of the Notes, could be materially adversely affected by illegal activities, corruption or by claims implicating the Alfa Banking Group in illegal activities.

Social instability in the Russian Federation, coupled with difficult economic conditions and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past to labour and social unrest (principally in urban areas). The rising level of unemployment and deteriorating standards of living in Russia that were principally caused by the global financial and economic crisis make labour and social unrest more likely in the future. Such labour and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism, including restrictions on foreign involvement in the Russian economy and increased violence.

Any of these could material adversely affect the Alfa Banking Group's business, financial condition, results of operations and prospects.

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[9] Source: Central Bank of Russia

Legal Risks

Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity.

The Russian legal framework applicable to a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code, by other federal laws and by decrees, orders and regulations issued by the President, the Government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap with or contradict one another. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian law and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian law often leaves substantial gaps in the regulatory infrastructure.

Among the risks of the current Russian legal system are:

- inconsistencies among:
  - federal laws;
  - decrees, orders and regulations issued by the President, the Government, federal ministries and regulatory authorities; and
  - regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpretations of Russian law;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the relative inexperience of certain judges in interpreting new principles of Russian law, particularly business and corporate law;
- the possibility that certain judges may be susceptible to economic, political or nationalistic influences;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed.

All of these weaknesses could limit the ability of holders of the Notes to obtain effective redress in Russian courts.

Unlawful or arbitrary government action in Russia may have an adverse effect on the Alfa Banking Group's business.

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes illegally. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at the Alfa Banking Group, could have a material adverse effect on its business, financial condition, results of operations or prospects.

Shareholder liability under Russian law could cause the Alfa Banking Group to be liable for the obligations of its subsidiaries.

The Civil Code, the Russian Federal Law "*On Joint Stock Companies*" No. 208-FZ dated 26 December 1995, as amended (the "**Joint Stock Companies Law**"), and the Russian Federal Law No. 14-FZ "*On Limited Liability*

Companies" dated 8 February 1998, as amended (the "**LLC Law**"), provide that shareholders in a Russian joint stock company or members of a Russian limited liability company generally are not liable for the company's obligations and bear only the risk of loss of their investment. Shareholder liability may arise, however, if one person (the "**Effective Parent**") can give binding instructions to another person (the "**Effective Subsidiary**"). In addition, the Effective Parent bears secondary liability for the obligations of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent's actions or inactions. In addition, in accordance with the recent amendments to the Federal Law No. 40-FZ "*On insolvency (bankruptcy) of credit organisations*" dated 25 February 1999, as amended (the "**Bank Insolvency Law**"), a bank's shareholders in certain defined circumstances could be liable for the bank's debt incurred after the occurrence of any indications of bankruptcy. Accordingly, Alfa Bank and other Russian companies within the Alfa Banking Group could be liable for the debts of subsidiaries of whose charter capital it owns more than 50%, or which it otherwise controls, which could adversely affect its operating results and financial condition.

There are weaknesses in legal protections for minority shareholders and in corporate governance standards under Russian law.

Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of action. Russian law also requires companies to obtain the approval of disinterested shareholders for certain transactions with interested parties.

In addition, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are registered at a meeting of Alfa Bank's shareholders (the "**General Shareholders Meeting**"). Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may have 75% or more voting power if certain minority shareholders are not registered at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a General Shareholders Meeting, they can approve amendments to the charter of the company and other measures requiring supermajority shareholder approval, which could be prejudicial to the interests of minority shareholders.

Although the Joint Stock Companies Law provides that shareholders owning not less than 1% of a company's stock may bring an action for damages on behalf of the company, Russian courts have very limited experience with such lawsuits. Investors' ability to pursue legal redress against the Alfa Banking Group may be limited.

Disclosure and reporting requirements and anti-fraud legislation have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies or shareholders is also relatively new and is not well developed.

Difficulty in enforcing the Alfa Banking Group's rights in Russia may have an adverse effect on the Alfa Banking Group's financial condition results operations and prospects.

The current status of the Russian legal system makes it uncertain whether the Alfa Banking Group would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, the dispersion of regulatory power among a number of state agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Russian Government has rapidly introduced laws and regulations and has changed its legal structure in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. The Alfa Banking Group's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts, which are underdeveloped, inefficient, and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions.

Enforcement of court orders can in practice be very difficult in the Russian Federation. Additionally, court orders are not always enforced or followed by law enforcement agencies.

Foreign judgments and arbitral awards may not be enforceable against the Alfa Banking Group.

Russian courts may not enforce any judgment obtained in a court established in a country other than the Russian Federation unless there is a (a) treaty in effect between the Russian Federation and the country where the judgement was rendered providing for the recognition of court judgments in civil cases and (or) (b) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted and/or (c) on the basis of reciprocity, if courts of the country where the foreign judgement is rendered have previously enforced judgements issued by Russian courts. No such treaty exists between the Russian Federation and either the United Kingdom or the United States and no such federal law has been passed. Even in the event that there is such a treaty and a federal law, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date on which such recognition and enforcement is sought. The Arbitrazh Procedural Code of the Russian Federation establishes the procedures for the recognition and enforcement of foreign court judgments and contains an extensive list of grounds for refusal of such recognition and enforcement in the future. Moreover, Russian procedural legislation may change and no assurance can be given that in the future no other ground for refusal of such recognition and enforcement may arise. There have been at least two instances in which Russian courts have recognized and enforced a judgment of a court of a country with which Russia does not have an international treaty to that effect (the United Kingdom and Holland). The basis for this was a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which both countries were parties. There have been no other Russian court decisions by which foreign judgments, in the absence of a statutory basis in Russian federal law or a treaty between Russia and the respective state where the foreign judgment was rendered, have been recognised and enforced on the territory of Russia. It may be said that as a general rule the court judgments rendered against a member of the Alfa Banking Group in the United Kingdom or elsewhere remain uncertain and it may be impossible to enforce in Russia, unless their recognition and enforcement are permitted by an international treaty or Russian legislation.

The ABH Financial Deed of Guarantee is governed by English law and provides for disputes, controversies and causes of action brought by any party thereto against the Guarantor to be settled by the courts of England or by arbitration in accordance with the Rules of the LCIA. The Russian Federation is a party to the New York Convention. Consequently, an arbitral award from an arbitral tribunal in London, England should generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention, subject to qualifications set out therein and in compliance with applicable Russian legislation. However, it may be difficult to enforce arbitral awards in the Russian Federation due to the relative inexperience of the Russian courts in international commercial transactions and official and unofficial political resistance to the enforcement of awards against Russian companies in favour of foreign investors.

Russian tax law and practice are not fully developed and are subject to frequent changes.

The Russian subsidiaries of the Alfa Banking Group are subject to a broad range of taxes and charges imposed at the federal, regional and local levels, including but not limited to, income tax, value added tax ("**VAT**"), property tax and payroll related insurance payments.

Russian laws related to these taxes, such as the Tax Code of the Russian Federation (the "**Tax Code**") and regulations relating thereto, have been in force for a short period relative to tax laws in more developed market economies. Historically, the system of tax collection in Russia has been relatively ineffective, resulting in the continual change in interpretation of the existing laws by various authorities.

Although Russia’s tax climate and the quality of Russian tax legislation have generally improved with the introduction of the Tax Code, the possibility exists that the Government may impose arbitrary or onerous taxes, fines and penalties in the future, which could adversely affect the business of Alfa Bank and the Russian subsidiaries of the Alfa Banking Group.

Since Russian federal, regional and local tax laws and regulations have been subject to frequent changes and some of the sections of the Tax Code relating to the aforementioned taxes are comparatively new, the interpretation and applications of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations may exist both among and within government bodies at the federal, regional and local levels, increasing the number of existing uncertainties and leading to the inconsistent enforcement of these laws and regulations in practice. The Russian tax system is therefore impeded by the fact that at times it still relies heavily on the inconsistent judgments of local tax officials and fails to address many of the existing problems.

Furthermore, taxpayers, the Ministry of Finance and the Russian tax authorities often interpret tax laws differently. In some instances, the Russian tax authorities have applied new interpretations of tax laws retroactively. Private clarifications to specific taxpayers' queries with respect to particular situations issued by the Ministry of Finance are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in the private clarification letters issued by the Ministry of Finance. During the past several years the tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation, which has led to an increased number of material tax assessments issued by them as a result of tax reviews of companies operating in various industries. In practice, taxpayers often have to resort to court proceedings to defend their positions against the tax authorities. In the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory. It is therefore possible that the Alfa Banking Group's transactions and activities that have not been challenged in the past may be challenged in the future.

In its decision of 25 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in a bad faith" without clearly stipulating the criteria for its application. Similarly, this concept is not defined in the Russian tax legislation or other branches of Russian legislation. Nevertheless, in practice this concept has been used by the tax authorities in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. Based on the available practice the tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is at times unfavourable to taxpayers.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53 (the "**Ruling**") which introduced a concept of the "unjustified tax benefit" defined mainly by reference to specific examples of such tax benefits, (such as tax benefits received in connection with transactions that have no reasonable business purpose) which may lead to disallowance of their application. Based on the current practice it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of this Ruling was to combat the abuse of tax law, based on the court practice relating to its application in cases which were brought to courts to date, it can be concluded that the tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been initially intended by the Supreme Arbitration Court. Alfa Bank is aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date, however, in many cases where this concept has been applied, the courts have ruled in favour of taxpayers, but there is no assurance that the courts will follow these precedents in the future.

Tax declarations together with related documentation are subject to review and investigation by a number of authorities, empowered by Russian law to impose fines and penalties on taxpayers. Generally, tax returns remain open and subject to inspection by the tax authorities for a period of three years immediately preceding the year in which the decision to conduct a tax audit is taken. The fact that a year has been reviewed by the tax authorities does not prevent further review of that year, or any tax return applicable to that year, from any further reviews during the three-year limitation period. In particular, a tax authority superior to that which has carried out the initial audit may re-audit the same period, although such re-audit would formally be undertaken as a review of the lower tax authority's work. Therefore, previous tax audits do not necessarily preclude subsequent claims relating to the audited period.

The Tax Code provides for the possible extension of the three-year statute of limitations for liabilities for tax offences if the taxpayer obstructed the performance of the tax review and this has become an insurmountable

obstacle for the tax review. Because the terms "obstructed" and "insurmountable obstacles" are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax audit with obstruction by the taxpayer and use that as a basis to seek tax adjustments and penalties beyond the three year limitation period. Therefore, the statute of limitations is not entirely effective with respect to liability for payment of taxes in Russia. Such review, if it is concluded that the Alfa Banking Group had significant tax underpayments for respective tax periods, may have a material adverse effect on the Alfa Banking Group's business, financial condition and results of operations.

In May 2009, the Russian President included in his budget message regarding the Budget Policy for 2010 to 2012 the proposal for legislative change relating to an anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant double tax treaty country. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2011 and planned period of 2012-2013 has proposed the introduction of these changes into the Russian Tax Code. In December 2009, a draft law became publicly available envisaging the introduction of the concept of an "actual recipient of income" into the Russian Tax Code. Although the draft law neither uses the term "beneficial owner" nor defines the term "actual recipient of income" (which is used in the Russian language versions of all double taxation treaties entered into by Russia), it is possible that the intent of the proposed amendments is to introduce a concept of beneficial ownership into the Russian tax legislation and to combat the abuse of double taxation treaties where the beneficiary of income resides in a jurisdiction which does not have a double taxation treaty with Russia. The draft law has not been enacted and there is no indication if and when it might become a law. If this law is ever introduced, it is uncertain how it will be interpreted and applied by the tax authorities and/or courts in practice and what effect it may have on taxpayers, including Alfa Bank and the Alfa Banking Group. It would add to the existing uncertainty and instability in the application of tax treaties in Russia.

In addition to the usual tax burden imposed on Russian tax payers, these conditions complicate tax planning and related business decisions. For example, Russian tax laws are unclear with respect to the deductibility of certain expenses. This uncertainty could possibly expose the Alfa Banking Group to significant fines and penalties and to enforcement measures, despite the Alfa Banking Group's best efforts at compliance, and could result in a greater than expected tax burden.

It should also be noted that Russian law does not provide for a possibility of group relief or fiscal unity. Consequently, no losses eligible for reducing the tax liability of one Russian legal entity in the Alfa Banking Group may be used to reduce the tax liability of any other Russian legal entity of the Alfa Banking Group. However, recently the Russian Ministry of Finance has proposed a draft legislation to introduce a tax consolidation regime, which has been adopted in the first reading by the Russian State Duma on 22 October 2010 (the second reading is expected to take place in 2011). The draft legislation introduces consolidated tax reporting, which may enable the consolidation of the final corporate tax results of taxpayers in the one corporate group. At this stage, it is impossible to predict whether, when and how such consolidated tax regime will be enacted and to what extent it might affect the Alfa Banking Group.

Despite the Russian Government's steps to reduce the overall tax burden in recent years in line with its objectives, the possibility exists that the Government may impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the Alfa Banking Group's business, financial condition or results of operations. Additionally, there have been cases perceived as utilisation of tax claims as a tool for significant state intervention in certain key industries.

The Russian tax authorities may, in the future, take a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities, which have not been challenged in the past may be challenged in the future.

The Russian tax authorities are increasingly taking a "substance over form" approach. While certain reductions in the rates, such as for profits tax, have been effected, it is expected that Russian tax legislation will become more sophisticated. The possibility exists that the Government may introduce additional revenue-raising measures. Although it is unclear how such measures would operate, the introduction of any such measures may affect the

Alfa Banking Group's overall tax efficiency and may result in significant additional taxes becoming payable. Although the Alfa Banking Group will continue to seek to minimise such exposures through tax planning, it cannot offer prospective investors any assurances that additional tax exposures will not arise while the Notes are outstanding and any such additional tax exposure could have a material adverse effect on the Alfa Banking Group's business, financial condition or results of operations.

The Alfa Banking Group operates in various jurisdictions and includes companies incorporated outside of Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies in Russia or operations of Russian companies abroad. The Russian Tax Code contains a concept of permanent establishment in Russia as a means for taxing foreign legal entities which carry out regular entrepreneurial activities in Russia beyond preparatory and auxiliary activities. However, the practical application of the concept of a permanent establishment under Russian law is not well developed and foreign companies having even limited operations in Russia, which would not normally satisfy the conditions for creating a permanent establishment under international rules, may be at risk of being treated as having a permanent establishment in Russia and be liable to Russian taxation and have obligations to withhold Russian taxes from payments to foreign individuals and legal entities as a tax agent. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities, the Alfa Banking Group could be subject to additional taxation in Russia in respect of our operations outside of Russia.

Although the Alfa Banking Group intends to conduct its affairs so that foreign entities of the Alfa Banking Group are not treated as having a permanent establishment in Russia, no assurance can be given that the activities of these foreign entities will not be treated as creating a permanent establishment. The effect of having a permanent establishment would be to subject the affected entity to Russian tax in a manner similar to the taxation of a Russian legal entity.

Furthermore, Russian tax legislation in effect on the date of this Prospectus does not contain a concept of tax residency for legal entities. Russian companies are taxed on their worldwide income whilst foreign entities are taxed in Russia on income attributable to a permanent establishment and on Russian source income. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2009-2011 has proposed the introduction of a concept of tax residency for legal entities to the domestic tax law. It is proposed that a foreign legal entity would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders. No assurance can be currently given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on the foreign entities of the Alfa Banking Group or the Issuer. The Alfa Banking Group may not rule out that as a result of the introduction of these changes certain companies of the Alfa Banking Group might be deemed to become Russian tax residents, subject to all applicable Russian taxes, which could have a material adverse effect on the business, prospects, financial condition and results of operations of the Alfa Banking Group.

These facts create tax risks in Russia that may be substantially more significant than typically found in countries with more developed tax systems.

Historically, the main Russian entities of the Alfa Banking Group have been paying significant amounts of tax due to the scale of their operations. Consequently, the introduction of new taxes or introduction of amendments to current taxation rules may have a substantial impact on the overall amount of tax liabilities of the respective entities. Although the Alfa Banking Group undertakes measures aimed at minimising tax risk and the approach to management of tax liabilities and tax risks within the Alfa Banking Group has been conservative, there is no assurance that the Russian entities of the Alfa Banking Group would not be required to make substantially larger tax payments in the future, which may affect the financial results of the Alfa Banking Group. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Alfa Banking Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant additional taxes, fines and penalties and enforcement measures, and could adversely affect the Alfa Banking Group's business, financial condition and results of operations.

Vaguely drafted Russian transfer pricing rules may have a negative effect on the operations of the Alfa Banking Group.

Transfer pricing legislation in Russia that became effective on 1 January 1999 allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs) provided that the transaction price differs upwards or downwards from the market price by more than 20%. "Controlled" transactions include domestic and international transactions with related parties and certain other types of transactions between independent parties, such as barter transactions, foreign trade transactions or transactions with significant price fluctuations (i.e. if the price of such transactions differs from prices applied by a taxpayer under similar transactions by more than 20% within a short period of time). Special transfer pricing rules apply to transactions with securities and derivatives.

The transfer pricing rules are broad in scope and vaguely drafted, generally leaving wide scope for interpretation at the discretion of the Russian tax authorities and courts, and there has been limited guidance as to how these rules should be applied. Moreover, in the event that a transfer pricing adjustment is assessed by the tax authorities, the transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the relevant transaction.

In 2009, a number of draft amendments to the transfer pricing law were announced which, if implemented, would considerably toughen the existing law and bring it more in line with international transfer pricing rules. The proposed transfer pricing rules have been approved by the Russian Parliament in the first reading on 19 February 2010 (the second and third readings are expected to take place in 2011). It is currently difficult to evaluate what effect these provisions may have on the Alfa Banking Group. However, it is still unclear if and when these amendments will be enacted and what exact effect these provisions may have on taxpayers, including Alfa Banking Group. Should these amendments be enacted, they may have a considerable impact on the Alfa Banking Group's tax position.

Accordingly, due to the uncertainties in the interpretation of transfer pricing legislation, no assurance can be given that the tax authorities will not challenge the Alfa Banking Group's prices and make adjustments, which could affect the Group's tax position. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on the Alfa Banking Group's business, financial condition, results of operations and prospects.

Russian regulation of banking and financial activity has been undergoing significant changes.

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity have only recently been adopted. In addition to Federal Law of 10 July 2002, No. 86-FZ "*On the Central Bank of the Russian Federation (Bank of Russia)*", as amended (the "**Central Bank Law**"), and Federal Law of 2 December 1990 No. 395-I "*On Banks and Banking Activity*", as amended (the "**Banking Law**"), Russia has adopted and continues to develop new banking legislation.

In December 2003, President Putin signed into law Federal Law of 23 December 2003, No. 177-FZ "*On Insurance of Deposits of Individuals in Banks of the Russian Federation*" (the "**Deposit Insurance Law**"), which mandates the protection of bank deposits of individuals. The Deposit Insurance Law establishes a deposit insurance scheme in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals. The enactment of the Deposit Insurance Law strengthens competition in the retail deposit market, as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits. The majority of banks that filed their requests were admitted to the deposit insurance scheme.

The CBR has also been developing regulations on bank capital and bringing them into line with international standards. Currently, CBR regulations on bank regulatory capital are relatively new, which could lead to uncertainty in their application and interpretation.

The changes in the Russian banking and financial regulation are aimed at bringing the regulatory regime more in line with that of more developed countries. However, due to the changes in the regulatory system, banks operate in

a new and relatively unclear regulatory environment. It is difficult to forecast how the changes in the banking and financial regulation will affect the Russian banking system and no assurance can be given that the regulatory system will not change in a way that will impair the Alfa Banking Group's ability to provide a full range of banking services or to compete effectively, thus adversely affecting the Alfa Banking Group's business, financial condition, results of operations and prospects.

The Alfa Banking Group is subject to regulations related to money laundering and non-compliance with these regulations may result in the revocation of the banking licences of members of the Alfa Banking Group.

Russia is a member country of the Financial Action Task Force on Money Laundering ("**FATF**") and the Egmond Group, and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Russia, all banks and their employees are obliged to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering. The Federal Law No. 115-FZ "*On Countermeasures Against Laundering of Criminal Profits and the Financing of Terrorism*" of 7 August 2001 (the "**Anti-Money Laundering Law**") and implementing legislation set forth the framework for this requirement and other anti-money laundering procedures.

Minimum standards and duties according to the Anti-Money Laundering Law include customer identification, record keeping, suspicious activity reporting, employee training, an internal audit function and designation of a compliance officer. Suspicious ("unusual") transactions must be reported on a daily basis to the Federal Service for Financial Monitoring.

To ensure that the Alfa Banking Group is not unwittingly used as an intermediary in any money laundering process or other related criminal activities, the Alfa Banking Group complies with the CBR's anti-money laundering rules. This programme includes written policies and procedures, assigning a compliance officer, an audit and review function to test the robustness of anti-money laundering policies and procedures, monitoring and auditing customer activities and transactions in accordance with anti-money laundering legislation and regulations and employee training. Non-compliance with Russian money laundering legislation may result in the revocation of Alfa Bank's banking licence and, as a result, the general deterioration of the Alfa Banking Group's business, financial position or results of operations.

The Russian corporate governance, public reporting requirements and accounting regulations to which the Alfa Banking Group is subject differ significantly from those applicable to comparable companies in other jurisdictions.

The Alfa Banking Group's corporate affairs are governed by its charters, its internal regulations and by the laws governing Russian banks and companies incorporated in Russia. See "*The Banking Sector and Banking Regulation in the Russian Federation*". The rights of shareholders and the responsibilities of members of the Supervisory Council and Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, companies organised in the United Kingdom, the United States or other jurisdictions. See "*Management*".

Russian banking and securities markets regulations contain certain disclosure requirements, including the requirement to prepare in accordance with RAR, and file, periodic financial statements with the CBR. Much of this financial information is subsequently made available to the public. Material differences exist between financial information prepared under RAR and IFRS. Therefore, prospective investors are cautioned not to place undue reliance on such information when evaluating the financial performance of the Alfa Banking Group.

In addition, despite recent initiatives to improve corporate transparency in Russia, there is less publicly available information about most Russian banks, including the Alfa Banking Group, than there is available for comparable banks in, for example, the United Kingdom or the United States.

The lack of availability and reliability of statistical information in Russia makes business planning inherently uncertain and may impair the ability of the Alfa Banking Group to plan effective strategies.

Statistical data, including official data, published by the CBR and otherwise in Russia are substantially less complete and reliable and may be produced on a different basis than those published in countries with more developed market economies. Due to the lack of availability of alternative reliable sources of country-specific data, Russian companies necessarily rely to some extent on this statistical data in their business planning. As a result, assumptions made by Russian companies in their business plans may prove to be incorrect and the issuer cannot assure prospective investors that the official sources from which it has drawn some of the information set out is reliable or complete. The lack of accurate statistical data for use in business planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of many of the Alfa Banking Group's corporate customers, which would have a material adverse effect on its business, financial condition, results of operations and prospects.

The Alfa Banking Group faces risks associated with doing business in other CIS countries and other emerging markets.

In addition to Russia, the Alfa Banking Group currently has banking subsidiaries in other CIS countries. The Alfa Banking Group may acquire or establish additional banking subsidiaries in the CIS and other emerging markets. In many respects, the risks inherent in transacting business in these countries are similar to those in Russia, especially those risks set out herein.

Risks Relating to the Issuer

The Issuer's ability to fulfil its obligations to make payments on the Notes is dependent on the Alfa Banking Group.

The Issuer is a special purpose vehicle whose entire share capital is held in a charitable trust by TMF Management (Ireland) Limited. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to make loans to Alfa Bank. The Issuer will use the proceeds of the issue of the Notes to finance a loan to Alfa Bank. ABH Financial will act as guarantor of the loan for Alfa Bank.

The Issuer does not have its own assets or revenues sufficient to meet its obligations to pay redemption amounts and other amounts due under the Notes. The performance by the Issuer of its obligations under the Notes is, therefore, entirely dependent upon Alfa Bank meeting its payment obligations under the terms of the Loan Agreement or, in the event of Alfa Bank's failure to do so, ABH Financial meeting its obligations as guarantor.

Risks Relating to the Notes

Noteholders have limited recourse to the Issuer as payments under the Notes are limited to the amount of certain payments received by the Issuer under the Loan Agreement and/or the ABH Financial Deed of Guarantee.

The Issuer has an obligation under the Conditions and the Trust Deed to pay such amounts of principal, interest and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is limited to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) from Alfa Bank and/or ABH Financial by or for the account of the Issuer pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be. Consequently, if Alfa Bank fails to meet its payment obligations under the Loan Agreement in full and ABH Financial fails to meet its payment obligations under the ABH Financial Deed of Guarantee in full, this will result in the Noteholders receiving less than the scheduled amount of principal, interest or other amounts, if any.

Noteholders have no direct recourse to Alfa Bank or ABH Financial.

Except as otherwise expressly provided in the Conditions and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the ABH Financial Deed of Guarantee exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder can enforce any provision of the Loan Agreement or the ABH Financial Deed of Guarantee or have direct recourse to Alfa Bank as borrower or ABH Financial as guarantor except through an action by the Trustee pursuant to the rights granted to

the Trustee in the Trust Deed. Under the Trust Deed and the Conditions, the Trustee shall not be required to take proceedings to enforce payment under the Loan Agreement or the ABH Financial Deed of Guarantee unless it has been indemnified and/or secured and/or pre-funded by the Noteholders to its satisfaction. In addition, neither the Issuer nor the Trustee is required to monitor Alfa Bank's or ABH Financial's financial performance. See "*Terms and Conditions of the Notes*".

Payment in full as described in Condition 7 shall operate as good discharge of the Issuer's obligations in respect of the Notes. Consequently, the Noteholders will have no further recourse against the Issuer, Alfa Bank or ABH Financial after such payment in full is made.

The lack of a public market for the Notes could reduce the value of an investment in the Notes.

If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected. In addition, stock markets in recent years and, in particular, in recent months, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

Alfa Bank's payments under the Loan may be subject to withholding tax.

In general, the interest payments on borrowed funds made by a Russian legal entity or organisation to a non-resident legal entity or organisation that has no registered presence and/or no permanent establishment in Russia are subject to Russian withholding tax at a rate of 20%, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on professional advice it received, Alfa Banking Group believes that interest payments to the Issuer on the Loan should not be subject to withholding tax under the terms of the Agreement between the Government of Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation with Respect to Taxes on Income dated 29 April 2004 (the "**Russia-Ireland double tax treaty**"). However, there can be no assurance that such double tax treaty relief will be obtained in practice or will continue to be available throughout the term of the Loan. In particular, there is at least one instance where the Russian tax authorities tried to challenge the application of double tax treaty benefits under a similar structure. The tax authorities eventually withdrew their claim. However at this stage it is difficult to predict whether this will remain an isolated case.

The Issuer has granted security over certain of its rights in the Loan Agreement to the Trustee in respect of its obligations under the Notes. The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event (as defined in "*Terms and Conditions of the Notes*"). If interest or other amounts due under the Loan become payable to the Trustee pursuant to the Trust Deed, the benefits of the Russia-Ireland double tax treaty will cease, and interest payments and other amounts to the Trustee will become subject to Russian withholding tax at the rate of 20% (or such other rate as may be in force at the time of payment). It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under a double tax treaty with Russia under such circumstances. In addition, while some Noteholders may be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable, there is no assurance that such exemption or reduction would be available for them in practice under such circumstances.

If the interest payments under the Loan become subject to Russian withholding tax or interest payments on the Notes become subject to any withholding or deduction for the account of Irish taxes (as a result of which the Issuer will reduce payments under the Notes by the amount of such withholding taxes), Alfa Bank will, in certain circumstances, be obliged under the terms of the Loan Agreement to increase the interest payments or to make such additional payments, as may be necessary, so that the net amounts received by the Issuer and the Noteholders will not be less than the amounts they would have received in the absence of such withholding. It is currently unclear whether the provisions obliging Alfa Bank to gross up interest payments will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that interest payments made by Alfa

Bank under the Loan Agreement will be reduced by Russian income tax withheld by Alfa Bank at a rate of 20%, or such other rate as may be in force at the time of payment. If Alfa Bank is obliged to increase payments, it may (without premium of penalty), subject to certain conditions, prepay the Loan in full. In such case, all the outstanding Notes corresponding to such received prepayment would be redeemable at par together with accrued and unpaid interest and additional amounts, if any, to the date of redemption. See "*Terms and Conditions of the Notes*" and "*Taxation*".

Tax might be withheld on dispositions of the Notes in Russia, reducing their value.

If a non-resident Noteholder, which is a legal entity or an organisation, which, in either case, is not organised under Russian law and which holds and disposes of the Notes otherwise than through its permanent establishment in Russia, sells the Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20% Russian withholding tax (even if the disposal resulted in a capital loss) although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities.

If a non-resident Noteholder who is an individual sells or disposes of the Notes and receives proceeds from a source within Russia, Russian withholding tax will be charged at a rate of 30% on the gross amount of proceeds from such disposal of the Notes less any available documented cost deductions (including the acquisition cost of the Notes). Although such tax may be reduced or eliminated under the provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice individuals will not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, and obtaining a refund of the taxes withheld can be extremely difficult, if not impossible. Furthermore, even though the Tax Code requires only an asset manager or broker, or other party, which is a Russian legal entity or an organisation, or any other person (including an economically autonomous subdivision of a foreign company in Russia or an individual entrepreneur located in Russia) acting under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement to withhold the tax associated with the disposition of securities from payment made to a non-resident Noteholder who is an individual, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "*Taxation—Russia*".

In addition, while some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under such circumstances.

The Issuer is subject to risks, including the location of its centre of main interest ("COMI"), the appointment of examiners and the claims of preferred creditors under Irish law.

Centre of Main Interest

As the Issuer has its registered office in Ireland, there is a rebuttable presumption that its COMI is in Ireland and consequently that any main insolvency proceedings applicable to it would be governed by Irish law. In the decision by the European Court of Justice (the "**ECJ**") in relation to Eurofood IFSC Limited, the ECJ restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings, that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in Ireland, has Irish directors, is registered for tax in Ireland and has an Irish corporate services provider, the Issuer does not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision. If the Issuer's COMI is not in Ireland, and is held to be in a different jurisdiction within the European Union, main insolvency proceedings may not be opened in Ireland.

Examinership

Examinership is a court procedure available under the Irish Companies (Amendment) Act 1990, as amended (the "**1990 Act**") to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to halt, prevent or rectify acts or omissions, by or on behalf of the company after his appointment and, in certain circumstances, negative pledges given by the company prior to his appointment will not be binding on the company. Furthermore, where proposals for a scheme of arrangement are to be formulated, the company may, subject to the approval of the court, affirm or repudiate any contract under which some element of performance other than the payment remains to be rendered both by the company and the other contracting party or parties.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist in the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the Irish High Court when a minimum of one class of creditors, whose interests are impaired under the proposals, has voted in favour of the proposals and the Irish High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement and the proposals are not unfairly prejudicial to any interested party.

The fact that the Issuer is a special purpose entity and that all its liabilities are of a limited recourse nature means that it is unlikely that an examiner would be appointed to the Issuer.

If, however, for any reason, an examiner were appointed while any amounts due by the Issuer under the Notes were unpaid, the primary risks to the holders of Notes would be as follows:

(i) the Trustee, acting on behalf of Noteholders, would not be able to enforce rights against the Issuer during the period of examinership; and

(ii) a scheme of arrangement may be approved involving the writing down of the debt due by the Issuer to the Noteholders irrespective of the Noteholders' views.

Preferred Creditors

If the Issuer becomes subject to an insolvency proceeding and the Issuer has obligations to creditors that are treated under Irish law as creditors that are senior relative to the Noteholders, the Noteholders may suffer losses as a result of their subordinated status during such insolvency proceedings. In particular:

(i) under the terms of the Trust Deed, the Notes will be secured in favour of the Trustee for the benefit of itself and the Noteholders by security over the Loan Agreement and sums held in the related account with the Principal Paying Agent. Under Irish law, the claims of creditors holding fixed charges may rank behind other creditors (namely fees, costs and expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners for PAYE and VAT;

(ii) under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid. There is a risk therefore that even a charge which purports to be taken as a fixed charge, such as the Charge, may take effect as a floating charge if a court deems that the requisite level of control was not exercised; and

(iii) in an insolvency of the Issuer, the claims of certain other creditors (including the Irish Revenue Commissioners for certain unpaid taxes), as well as those of creditors mentioned above, will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges.

Use of Proceeds

The gross proceeds from the offering of the Notes, of U.S.$1,000,000,000, will be used by the Issuer for the sole purpose of financing the Loan to the Borrower. The Borrower intends to use the net proceeds from the Loan to fund the expansion of its loan portfolio and to support its liquidity management. Total commissions (including discretionary fees to be paid, if any) and estimated expenses relating to the offering of the Notes are expected to be approximately U.S.$3,000,000 and will be financed by the Borrower.

Capitalisation of the Alfa Banking Group

The following table sets out the consolidated total equity and liabilities of the Alfa Banking Group as at 31 December 2010, derived from the 2010 ABH Financial Consolidated Financial Statements, included elsewhere in this Prospectus and not adjusted to reflect the Offering. This information should be read in conjunction with the sections entitled "Selected Consolidated Financial Information", "Operating and Financial Review of the Alfa Banking Group" and the 2010 ABH Financial Consolidated Financial Statements, including the notes to the 2010 ABH Financial Consolidated Financial Statements, appearing elsewhere in this Prospectus.

	As at 31 December 2010
	(U.S.$ millions)
Equity	
Share capital	1,265
Fair value reserve for investments available for sale	55
Revaluation reserve for premises and equipment	30
Cumulative translation reserve	(331)
Retained earnings	2,060
Total equity	**3,079**
Liabilities	
Due to other banks	2,097
Customer accounts	16,812
Debt securities issued	4,107
Syndicated and other debt	190
Subordinated debt	1,395
Other financial liabilities	332
Other liabilities	327
Deferred tax liability	139
Total liabilities	**25,399**
Total liabilities and equity	**28,478**

For information on significant developments after 31 December 2010, see "*Recent Developments*". Except as described therein, there have been no material changes in the Alfa Banking Group's capitalisation since 31 December 2010.

Selected Consolidated Financial Information

The following tables present selected consolidated financial information of the Alfa Banking Group which has been derived from, and should be read in conjunction with, the ABH Financial Consolidated Financial Statements and the notes thereto included elsewhere in this Prospectus, as well as the sections entitled "Presentation of Financial and Other Data", "Risk Factors" and "Operating and Financial Review of the Alfa Banking Group".

Consolidated Statement of Comprehensive Income Data of the Alfa Banking Group

	For the year ended 31 December		
	2010	**2009**	**2008**
		(U.S.$ millions)	
Net margin	**1,307**	**1,075**	**1,381**
Provision for loan impairment	(370)	(589)	(956)
Net margin after provision for loan impairment	**937**	**486**	**425**
Fee and commission income	436	339	421
Fee and commission expense	(119)	(84)	(80)
Gains less losses arising from trading securities	70	173	(42)
Gains less losses arising from interest based derivatives	(15)	(118)	116
Gains less losses arising from foreign currencies and precious metals	57	(51)	281
Gains less losses arising from investments	87	(3)	(23)
Gains less losses arising from acquisition of own debts	(5)	49	139
Other provisions	12	5	(53)
Loss on disposal of subsidiaries	-	(5)	-
Other operating income	82	80	79
Operating expenses	(842)	(747)	(813)
Share of results and impairment of associates	-	-	(49)
Profit before tax	**700**	**124**	**401**
Income tax expense	(147)	(47)	(171)
Profit for the year	**553**	**77**	**230**
Other comprehensive income/(loss) for the year	**(22)**	**139**	**(188)**
Total comprehensive income for the year	**531**	**216**	**42**

Consolidated Statement of Financial Position Data of the Alfa Banking Group

	As at 31 December		
	2010	**2009**	**2008**
Assets		*(US$ millions)*	
Cash and cash equivalents	3,182	1,966	3,860
Mandatory cash balances with central banks	189	150	79
Trading securities	1,426	1,372	588
Repurchase receivables relating to trading securities	914	-	151
Due from other banks	2,754	2,270	1,837
Loans and advances to customers	16,795	13,449	17,970
Investments	2,108	1,508	372
Repurchase receivables relating to investments	-	-	215
Other financial assets	474	251	1,195
Other assets	287	277	371
Premises and equipment	304	366	390
Deferred tax asset	45	37	24
Total assets	**28,478**	**21,646**	**27,052**
Liabilities			
Due to other banks	2,097	1,108	7,407
Customer accounts	16,812	13,686	12,582
Debt securities issued	4,107	1,565	2,391
Syndicated and other debt	190	295	1,064
Subordinated debt	1,395	1,747	464
Other financial liabilities	332	322	833
Other liabilities	327	123	110
Deferred tax liability	139	102	39
Total liabilities	**25,399**	**18,948**	**24,890**
Equity			
Share capital	1,265	1,265	945
Fair value reserve for investments available for sale	55	54	(45)
Revaluation reserve for premises and equipment	30	33	53
Cumulative translation reserve	(331)	(304)	(359)
Retained earnings	2,060	1,647	1,554
Non-controlling interest	-	3	14
Total equity	**3,079**	**2,698**	**2,162**
Total liabilities and equity	**28,478**	**21,646**	**27,052**

Operating and Financial Review of the Alfa Banking Group

The following operating and financial review of the consolidated financial position and operating result of the Alfa Banking Group covers the years ended 31 December 2010, 2009 and 2008. Unless otherwise specified, the financial information presented in this discussion has been extracted or derived from the ABH Financial Consolidated Financial Statements. This section should be read in conjunction with the ABH Financial Consolidated Financial Statements and the notes thereto and the other financial information included elsewhere in this Prospectus, as well as the section entitled "Presentation of Financial and Other Information". This section contains forward-looking statements that involve risks and uncertainties. The Alfa Banking Group's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

Principal Activities

The Alfa Banking Group is a leading Russian banking group offering a wide range of banking products and services. Alfa Bank, part of the Alfa Banking Group, is one of the largest, non-state-owned banks in Russia. The Alfa Banking Group has three main segments:

- *Corporate and investment banking*, which provides a broad range of commercial and investment banking services and products, including corporate lending, corporate deposit services, trade finance operations, structured corporate lending, securities trading, debt and equity capital markets, derivatives, structured financing, foreign exchange trading, corporate finance and merger and acquisition advisory services to large corporations and small and mid-sized enterprises ("**SMEs**"), and other financial institutions;

- *Retail banking*, which provides financial services, including deposit services, credit and debit card services, lending (including consumer loans, personal instalment loans, credit card lending, car loans and mortgages), money transfers and private banking services to individuals; and

- *Treasury operations*, which manage the Alfa Banking Group's funding activities and investment in liquid assets, as well as short-term money market and promissory note operations.

As at 31 December 2010, the Alfa Banking Group had 364 offices throughout the Russian Federation and abroad, including subsidiaries and representative offices (along with their associated branches) in the Russian regions, Netherlands, Cyprus, the United States and the United Kingdom. For a more detailed description of the business activities of the Alfa Banking Group, see "*Description of the Alfa Banking Group*".

Relationship with the Alfa Consortium

The Alfa Banking Group is part of a wider group of companies referred to herein as the Alfa Consortium (the "**Alfa Consortium**") that operate principally in the banking, insurance, telecommunications and the oil and gas sectors, as well as in investment and retail trade businesses. The ultimate parent company of the Alfa Banking Group is ABH Holdings S.A. (formerly ABH Holdings Corp.), a corporation incorporated under the laws of the Grande-Duchy of Luxembourg, which owns 100% of the shares in ABH Russia Limited, a company organised under the laws of the Republic of Cyprus, which owns 100% of the shares in ABH Financial, the parent company of the Alfa Banking Group. For further details on the structure and beneficial ownership of the Alfa Banking Group, see *"Description of the Alfa Banking Group"*.

The Alfa Banking Group traditionally has conducted and continues to conduct significant business with related parties. As at 31 December 2010, the Alfa Banking Group's loans and advances to customers included balances outstanding from related parties representing 7.9% and 5.0% of gross loans to customers and total assets, respectively, compared to 5.8% and 4.0% as at 31 December 2009. As at 31 December 2010, the Alfa Banking Group's credit related commitments to related parties amounted to 7.6% of total credit related commitments, compared to 4.0% as at 31 December 2009.

As at 31 December 2010 actual on-balance sheet exposure to TNK-BP was U.S.$11 million and credit related commitments amounted to U.S.$28 million compared to an on-balance sheet exposure amounting to U.S.$65 million and credit related commitments amounting to U.S.$57 million as at 31 December 2009. The decrease in the Alfa Banking Group's exposure to TNK-BP in the year ended 31 December 2010 primarily reflects a decrease in the amount of TNK-BP's securities in the Alfa Banking Group's trading portfolio and a decrease of guarantees in favour of TNK-BP issued by the Alfa Banking Group. As at 31 December 2010, the Alfa Banking Group had given guarantees in respect to TNK-BP of U.S.$28 million (as compared to U.S.$57 million as at 31 December 2009). These guarantees represent 23.0%, as compared to 77.0% as at 31 December 2009, of Alfa Banking Group's credit related commitments to related parties and were primarily issued in respect of the purchase of supplies and equipment by TNK-BP in the ordinary course of its business.

In August 2006, the Alfa Banking Group spun off its Ukrainian operations and began to treat its exposure to PJSC Alfa Bank (Ukraine) ("**Alfa-Bank Ukraine**" and together with its subsidiaries, the "**ABH Ukraine Group**") as a related party exposure. As at 31 December 2010, the Alfa Banking Group's on-balance sheet exposure to ABH Ukraine Group (including trading securities of U.S.$22 million, investment securities available for sale of U.S.$4 million, correspondent accounts of U.S.$2 million, term placements of U.S.$281 million and other receivables of U.S.$93 million) amounted to U.S.$402 million and credit related commitments to ABH Ukraine Group amounted to U.S.$40 million. As at 31 December 2009, the Alfa Banking Group's on-balance sheet exposure to ABH Ukraine Group was U.S.$461 million and credit related commitments to ABH Ukraine Group amounted to U.S.$9 million. The decrease in exposure is primarily due to a decrease in correspondent accounts held with ABH Ukraine Group, partially offset by the balance receivable from ABH Ukraine Limited in the amount of U.S.$93 million as payment for the 19.8986% equity stake in Alfa-Bank Ukraine and subordinated loan to Alfa-Bank Ukraine in the amount of U.S.$248 million. See "*Related Party Transactions*". The Alfa Banking Group applies its standard risk management policies and procedures in its assessment of credit risk to ABH Ukraine Group in this context (see "*Risk Management*"), and future exposure will depend on its assessment of risk under these policies and procedures.

As at 31 December 2010, related parties maintained U.S.$1,927 million in customer accounts with the Alfa Banking Group, which was 11.5% of the Alfa Banking Group's total customer accounts (U.S.$1,765 million and 12.9%, respectively, as at 31 December 2009). The Alfa Banking Group currently has no plans to reduce this form of funding from related parties, and indeed believes that from a liquidity perspective having a certain percentage of liabilities to related parties may be preferable as such parties may be less likely to withdraw funds from the Alfa Banking Group in turbulent environments, such as the one experienced during the financial crisis.

Substantially all assets placed with, or funding provided by, related parties by the Alfa Banking Group are at market rates. For further information regarding the exposures and liabilities of the Alfa Banking Group related to related parties, see "*Related Party Transactions*".

Payment of Dividends

On 27 December 2010, the ABH Financial declared dividends in the amount of U.S.$150 million. On 31 December 2010, the amount of U.S.$148 million of dividends payable to ABH Russia Limited (which owns 100% of the shares in ABH Financial, the immediate parent company of the Alfa Banking Group) was netted against accounts receivable from ABH Russia Limited in the same amount. The remaining U.S.$2 million of dividends payable was outstanding as at 31 December 2010.

Factors Affecting Results of Operations

General Market Conditions and Operating Environment in Russia

The majority of the Alfa Banking Group's assets are concentrated in Russia (77.3%, 77.7% and 80.6% as at 31 December 2010, 2009 and 2008, respectively). The concentration of the Alfa Banking Group's assets in Russia reflects its strategic focus on its core market in Russia and the separation of its Ukrainian operations through the spin-off of Alfa-Bank Ukraine in 2006. As a result of the concentration of its assets in Russia, the Alfa Banking Group is substantially influenced by Russian macro and microeconomic conditions. Russia's economy is to a

significant degree dependent on exports of key commodities, such as oil, gas, iron ore and other raw materials. Dramatic decreases in the prices of these commodities in the world market in the second half of 2008 and first half of 2009 resulted in sharp decreases in Government revenues and the revenues of privately held Russian companies operating in these sectors, which in turn had a severely negative effect on the overall Russian economy.

The following table sets out key Russian economic indicators for the years ended 31 December 2010, 2009 and 2008:

	For the year ended 31 December		
	2010	**2009**	**2008**
Gross domestic product (billions of RUR)(1)	44,491.4	38,797.2	41,264.9
Foreign currency reserves (billions of U.S. dollars)(2)	432.9	405.8	410.7
CPI Inflation (%)(1)	8.8	8.8	13.3

(1) Source: Russian Federal State Statistics Service

(2) Source: Central Bank of Russia

Russia enjoyed a decade of strong growth until mid-2008. Following the onset of the global economic crisis, it was gripped by a severe recession in the second half of 2008 that was exacerbated by a steep drop in the price of Russia's main export, oil. Similar to Western Europe and the United States, Russia faced decreased liquidity, falling sales, cuts in production and staff and a rise in unemployment. Banks withheld credit and companies were forced to restructure debts as twelve consecutive months of contracting industrial output depleted earnings as the economy shrank 7.9% in 2009[10]. Uncertainty in the global financial markets led to failures of banks and other corporates, and to bank rescues in the United States, Western Europe, Russia and elsewhere. Since September 2008, several medium size Russian banks have been acquired by state-controlled banks and companies due to their liquidity problems. The recovery of global commodity markets and global demand allowed Russia to post year-over-year economic growth of 3.5%, 5% and 3.1% in the first, second and third quarters of 2010, respectively[11]. Due to the low state debt-to-GDP level, the Russian real sector was relatively insulated from the Eurozone debt crisis. However, Russian financial markets and the exchange rate suffered from global financial instability and capital flight to quality.

The Russian Government undertook prompt steps to respond to the crisis by, among other things, spending approximately U.S.$200 billion of its U.S.$600 billion international reserves in late 2008 to slow the devaluation of the Rouble. The Russian Government also devoted U.S.$200 billion to a rescue plan to increase liquidity in the banking sector and aid Russian firms unable to roll over large foreign debts coming due. In October 2008, the CBR raised the guarantee repayment of individual deposits under the State deposit insurance coverage to RUR 700 thousand per individual in case of the withdrawal of a licence of a bank or an imposed moratorium on payments by the CBR. The list of assets that can be pledged under repurchase agreements with the CBR was significantly extended. As the banking sector has been stable in 2010 and 2011, the government is focusing its support for the economy on fiscal rather than monetary measures.

The Russian economy showed signs of gradually recovering after the steep decline in 2008 and 2009. Prices on world markets for major Russian export commodities continued to improve. In particular, the price of oil, which is a major Russian export, increased by about a third at the end of 2010 as compared with the previous year (in 2008, they were 128% lower than in December 2009)[12]. Growth in world oil prices, first observed in 2009, continued into 2010 due to higher oil demand forecasts as production began growing in some countries and the Chinese economy continued to expand. In addition, the world oil market was influenced by the U.S. dollar fluctuations against other major world currencies, which impacted the dollar-denominated prices of commodities and made

[10] Source: Russian Federal State Statistics Service

[11] Source: Russian Federal State Statistics Service

[12] Source: U.S. Energy Information Administration (EIA) (www.eia.doe.gov)

commodity markets increasingly attractive for speculative and investment capital. Thus far, the impact of the European debt crisis appears to be limited in part due to Russia's stronger fiscal and debt positions and limited trade and financial linkages with the western European periphery (for instance, less than 1% of the Russian exports are attributable to Greece and not more than 10% to Greece, Italy, Spain and Portugal combined)[13].

The recent turmoil in the Middle East and North Africa has led to a surge in the prices of oil and other commodities in early 2011, but has also increased market volatility.

Though the Russian economy continues to experience inflation, it has trended downwards since the second quarter of 2009 due to a persistent output gap and Rouble appreciation. In 2007, CPI inflation was 11.9%, 13.3% in 2008 and 8.8% in 2009 and 2010[14].

Interest Rate Environment

The interest rate environment globally, and in particular, in Russia, has an impact on the Alfa Banking Group's business, and particularly on its net interest income, which is driven by the spread between the rate paid on deposits and borrowed funds and the rate received on loans to corporate and individual customers. The following table, which is taken from statistical information produced by the CBR, presents the average interest rates earned by banks based in Russia on U.S. dollar and Rouble denominated loans to corporate clients and average interest rates paid by such banks on Rouble denominated deposits from retail clients.

	For the year ended 31 December		
	2010	**2009**	**2008**
Loans to corporate clients in U.S. dollars (on short term loans)	6.2%	9.0%	10.7%
Loans to corporate clients in RUR (on loans of less than one year)	9.2%	13.6%	15.6%
Deposits from retail clients in RUR (on deposits of less than one year, including demand deposits)	5.5%	8.8%	7.2%

Source: Central Bank of Russia

Average interest rates on newly issued U.S. dollar and Rouble loans to corporate clients by banks based in Russia for the year ended 31 December 2010 were lower than in the years ended 31 December 2009 and 2008.

The Alfa Banking Group's net interest margin increased to 6.0% for the year ended 31 December 2010 from 5.3% for the year ended 31 December 2009 primarily due to a decrease in interest rates on due to other banks as a result of repayment during the second half of 2009 of CBR funding, lower deposit interest rates in 2010 and relatively low cost Tier 2 funding received from Vnesheconombank, partially offset by a reduction in average interest rates on loans to corporate borrowers and due from other banks. See "*Selected Statistical and Other Information—Average Balance Sheet and Interest Rate Data*".

Deterioration of economic conditions in Russia and worldwide forced Russian financial institutions to tighten their credit risk assessment criteria, which decreased the population of acceptable borrowers. At the same time, and also as a result of deterioration of economic conditions, a number of borrowers reduced their business and/or growth plans, which decreased to some extent their funding requirements. These and other factors have resulted in escalation of competition in the corporate lending market and have contributed to a continuing decline of interest rates on loans to corporate borrowers.

Non-interest Income

The financial crisis resulted in a steep decline in corporate finance transactions and opportunities for earning fees from the provision of financial advice. The financial crisis also affected the Alfa Banking Group's trading income. In general, market volatility has resulted in a unique environment where there is often no consensus on the fair

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[13] Source: World Bank Report on Russian Economy

[14] Source: Russian Federal State Statistics Service

value of assets among market participants and less certainty than normal about trends in commodity or currencies prices resulting in greater risk and reward for proprietary traders.

Significant Accounting Policies, Critical Accounting Estimates and Judgments in Applying Accounting Policies

The accounting policies of the Alfa Banking Group are integral to understanding its results of operations and financial condition. The Alfa Banking Group's significant accounting policies are described in Note 3 to the ABH Financial Consolidated Financial Statements appearing elsewhere in this Prospectus.

The preparation of its consolidated financial statements requires the Alfa Banking Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting period. On an ongoing basis, the Alfa Banking Group's management evaluates its estimates and judgments, including those related to impairment losses on loans and advances, impairment and valuation of investments, fair values of derivatives, functional currencies and income taxes. Management bases its estimates and judgments on historical experience and on various other factors that it believes to be reasonable under the circumstances. Actual results will differ from these estimates and conditions, and such differences may be material. Please refer to Note 4 to the ABH Financial Consolidated Financial Statements appearing elsewhere in this Prospectus for further details.

Results of Operations for the Year Ended 31 December 2010 Compared with the Year Ended 31 December 2009

The following table sets forth the principal components of the Alfa Banking Group's consolidated statement of comprehensive income for the years ended 31 December 2010 and 2009.

	Year ended 31 December	
	2010	**2009**
	(U.S.$ millions)	
Interest income	2,320	2,519
Interest expense	(972)	(1,403)
Expenses directly attributable to leasing and deposit insurance	(41)	(41)
Net margin	**1,307**	**1,075**
Provision for loan impairment	(370)	(589)
Net margin after provision for loan impairment	**937**	**486**
Fee and commission income	436	339
Fee and commission expense	(119)	(84)
Gains less losses arising from trading securities	70	173
Gains less losses arising from interest based derivatives	(15)	(118)
Gains less losses arising from foreign currencies and precious metals	57	(51)
Gains less losses arising from investments	87	(3)
Gains less losses arising from acquisition of own debts	(5)	49
Other provisions	12	5
Loss on disposal of subsidiaries	-	(5)
Other operating income	82	80
Operating expenses	(842)	(747)
Profit before tax	**700**	**124**
Income tax expense	(147)	(47)
Profit for the year	**553**	**77**
Other comprehensive income/(loss) for the year	**(22)**	**139**
Total comprehensive income for the year	**531**	**216**

Net Margin

Net margin is comprised of total interest income less total interest expense and expenses directly attributable to leasing and deposit insurance. The Alfa Banking Group's net margin before provisions for the year ended 31 December 2010 increased 21.6% to U.S.$1,307 million from U.S.$1,075 million for the year ended 31 December 2009. This increase resulted from significantly lower interest expenses, primarily interest paid on due to other banks accounts and term deposits of legal entities, partially offset by lower interest income from loans and advances to corporate customers.

The following table sets out the principal components of the Alfa Banking Group's interest income and interest expense for the years ended 31 December 2010 and 2009:

	Year ended 31 December	
	2010	**2009**
	(U.S.$ millions)	
Interest income		
Loans and advances to corporate customers	1,461	1,683
Loans and advances to individuals	491	483
Due from other banks	142	194
Trading securities and repurchase receivables	127	107
Debt investments available for sale	96	52
Debt investments held to maturity	3	-
Total interest income	**2,320**	**2,519**
Interest expense		
Term deposits of legal entities	(278)	(427)
Term deposits of individuals	(229)	(236)
Debt securities issued	(204)	(144)
Subordinated debt	(151)	(80)
Due to other banks	(62)	(419)
Current/settlement accounts	(34)	(73)
Syndicated and other debts	(14)	(23)
Other	-	(1)
Total interest expense	**(972)**	**(1,403)**
Expenses directly attributable to leasing and deposit insurance	(41)	(41)
Net margin	**1,307**	**1,075**

Interest Income

Interest income includes all interest income from loans and advances to customers, trading and investment securities and income due from other banks. Total interest income for the year ended 31 December 2010 decreased 7.9% to U.S.$2,320 million from U.S.$2,519 million for the year ended 31 December 2009. This decrease in total interest income was due to lower interest received primarily on loans and advances to corporate customers and other banks partially offset by higher interest income on debt investments available for sale and trading securities including repurchase receivables.

Interest income from loans and advances to corporate customers. Interest income from loans and advances to corporate customers for the year ended 31 December 2010 decreased 13.2% to U.S.$1,461 million from U.S.$1,683 million for the year ended 31 December 2009. This decrease resulted primarily from decreased interest rates in response to changing market conditions and increased competition for high quality borrowers.

Interest income from loans and advances to individuals. Interest income from loans and advances to individuals for the year ended 31 December 2010 remained almost unchanged at U.S.$491 million compared with U.S.$483 million for the year ended 31 December 2009, despite a 10.9% decrease in the average gross amount of loans to individuals to U.S.$2,091 million for the year ended 31 December 2010 from U.S.$2,346 million for the year

ended 31 December 2009 as this effect was offset by an increase of the share of higher-margin consumer loans in the retail portfolio to 37.4% for the year ended 31 December 2010 from 18.4% for the year ended 31 December 2009.

Interest income due from other banks. Interest income due from other banks for the year ended 31 December 2010 decreased 26.8% to U.S.$142 million from U.S.$194 million for the year ended 31 December 2009. This decrease reflects lower interest rates in the interbank market in 2010 partially offset by an increase in the average amounts due from other banks held during the year ended 31 December 2010 to U.S.$2,390 million from U.S.$2,326 million for the year ended 31 December 2009.

Interest income from trading securities and repurchase receivables. Interest income from trading securities for the year ended 31 December 2010 increased 18.7% to U.S.$127 million from U.S.$107 million for the year ended 31 December 2009. This increase was primarily a result of an increase in the average amount of debt trading securities and repurchase receivables for the year ended 31 December 2010 to U.S.$1,711 million from U.S.$1,121 million for the year ended 31 December 2009.

Interest Expense

Interest expense includes all interest expense from amounts due to other banks, term deposits of legal entities and individuals, debt securities issued, current/settlement accounts, subordinated debt and syndicated and other loans. Total interest expense for the year ended 31 December 2010 decreased 30.7% to U.S.$972 million from U.S.$1,403 million for the year ended 31 December 2009. This decrease in total interest expense was due to lower interest expenses on due to other banks balances and term deposits from corporate customers (legal entities), partially offset by higher expenses on subordinated debt and debt securities issued. Average interest rates on borrowings for the year ended 31 December 2010 decreased to 4.7% from 6.8% for the year ended 31 December 2009 due to repayment of funding from the CBR and lower interest rates on customers' account deposits as a result of stabilisation of the economy leading to a general decrease in interest rates.

Interest expense related to term deposits of legal entities. Interest expense related to term deposits of legal entities for the year ended 31 December 2010 decreased 34.9% to U.S.$278 million from U.S.$427 million for the year ended 31 December 2009. This decrease resulted from a decline in interest rates on corporate deposits together with a general trend of decreasing interest rates in 2010, partially offset by an increase in the average amount of term deposits from legal entities. The average amount of term deposits of legal entities outstanding for the year ended 31 December 2010 increased to U.S.$4,937 million from U.S.$4,499 million for the year ended 31 December 2009. See "— *Factors Affecting Results of Operations—Interest Rate Environment*".

Interest expense related to term deposits of individuals. Interest expense related to term deposits of individuals for the year ended 31 December 2010 decreased 3.0% to U.S.$229 million from U.S.$236 million for the year ended 31 December 2009. This decrease was primarily due to a decrease in interest rates partially offset by growth of average amounts of term deposits from individuals for the year ended 31 December 2010 to U.S.$4,041 million from U.S.$3,395 million for the year ended 31 December 2009. Interest rates offered by Russian banks on term deposits during the year ended 31 December 2010 fell in line with a general decrease in interest rates. See "— *Factors Affecting Results of Operations—Interest Rate Environment*".

Interest expense related to debt securities issued. Interest expense related to debt securities issued for the year ended 31 December 2010 increased 41.7% to U.S.$204 million from U.S.$144 million for the year ended 31 December 2009. This was due to the issue of medium term notes and loan participation notes in 2010, a significant increase in the amount of domestic promissory notes issued in 2010 and an increase in the average amount of debt securities issued outstanding for the year ended 31 December 2010 to U.S.$2,775 million from U.S.$1,985 million for the year ended 31 December 2009.

Interest expense related to subordinated debt. Interest expense related to subordinated debt for the year ended 31 December 2010 increased 88.8% to U.S.$151 million from U.S.$80 million for the year ended 31 December 2009. This increase was due to the Alfa Banking Group obtaining additional subordinated loans from Vnesheconombank in October 2009 in the amount RUR29.2 billion and an increase in the average amount of subordinated debt

outstanding for the year ended 31 December 2010 to U.S.$1,616 million from U.S.$993 million for the year ended 31 December 2009.

Interest expense due to other banks. Interest expense due to other banks for the year ended 31 December 2010 significantly decreased 85.2% to U.S.$62 million from U.S.$419 million for the year ended 31 December 2009. This decrease primarily resulted from the full repayment of short-term funding provided by the CBR during the liquidity crisis in 2009 (which had significantly higher interest rates than the rest of the Alfa Banking Group's interbank loans) and a general decrease of interest rates on the interbank market in 2010 compared to 2009.

Interest expense related to current/settlement accounts. Interest expense related to current/settlement accounts for the year ended 31 December 2010 decreased 53.4% to U.S.$34 million from U.S.$73 million for the year ended 31 December 2009. This was primarily due to a decline in interest rates in line with the general trend of interest rates in Russia partially offset by an increase in average amounts of current accounts for the year ended 31 December 2010 to U.S.$5,516 million from U.S.$5,061 million for the year ended 31 December 2009. See "—*Factors Affecting Results of Operations—Interest Rate Environment*".

Interest expense related to syndicated and other debt. Interest expense related to syndicated and other debt for the year ended 31 December 2010 decreased 39.1% to U.S.$14 million from U.S.$23 million for the year ended 31 December 2009. This decrease reflects repayment by the Alfa Banking Group of all of its syndicated debt, leaving only a loan from the Federal Deposit Insurance Agency with a remaining value of U.S.$190 million outstanding as at 31 December 2010 compared to U.S.$295 million as at 31 December 2009 consisting of a syndicated loan in the amount of U.S.$71 million and a loan from the Federal Deposit Insurance Agency in the amount of U.S.$224 million.

Provision for Loan Impairment

The provision for loan impairment includes net changes in the provision for loans and advances to customers and in the provision for due from other banks. The following table sets out details of changes in the provision for impairment of loans and advances to customers for the year ended 31 December 2010 and 2009.

	Year ended 31 December	
	2010	**2009**
	(U.S.$ millions)	
Provision for loan impairment as at 1 January	**1,504**	**1,190**
Provisions during the year	422	628
Amounts written off during the year as uncollectible	(522)	(276)
Disposal of subsidiary	-	(3)
Translation movement	(24)	(35)
Provision for loan impairment as at 31 December	**1,380**	**1,504**

The Alfa Banking Group's provision for loan impairment as at 31 December 2010 decreased 8.2% to U.S.$1,380 million from U.S.$1,504 million as at 31 December 2009. The Alfa Banking Group's overall provisioning level as a percentage of the total loans and advances to customers as at 31 December 2010 decreased to 7.6% of total gross loans and advances to customers as compared to 10.1% as at 31 December 2009, which the Alfa Banking Group considers an adequate provisioning level given the current volume of problem loans and partial market recovery after the financial crisis. The proportion of non-performing loans within the Alfa Banking Group's loans and advances to customers as at 31 December 2010 decreased as compared to 31 December 2009 as a result of a significant part of the problem loans being repaid, restructured or written off during the year ended 31 December 2010. As at 31 December 2010, 4.7% of the Alfa Banking Group's total gross loans and advances to customers were overdue (i.e., loans with a delay of one day or more in payment of interest or principal) (U.S.$856 million of total gross loans and advances to customers of U.S.$18,175 million), as compared to 21.2% of the Alfa Banking Group's total gross loans and advances to customers as at 31 December 2009 (U.S.$3,167 million of total gross loans and advances to customers of U.S.$14,953 million). See "*Selected Statistical and Other Information— Loans and advances to customers —Provisions for Loan Impairment*".

Non-Interest Income

Non-interest income is composed of net fee and commission income; gains less losses arising from: trading securities, interest based derivatives, foreign currencies and precious metals, investments and acquisition of own debts; and other operating income. The following table sets out certain information regarding the Alfa Banking Group's non-interest income for the years ended 31 December 2010 and 2009:

	Year ended 31 December	
	2010	**2009**
	(U.S.$ millions)	
Fee and commission income	436	339
Fee and commission expense	(119)	(84)
Net fee and commission income	**317**	**255**
Gains less losses arising from trading securities	70	173
Gains less losses arising from interest based derivatives	(15)	(118)
Gains less losses arising from foreign currencies and precious metals	57	(51)
Gains less losses arising from investments.	87	(3)
Gains less losses arising from acquisition of own debts	(5)	49
Other provisions	12	5
Loss on disposal of subsidiaries	-	(5)
Other operating income	82	80
Total non-interest income	**605**	**385**

The Alfa Banking Group's non-interest income amounted to U.S.$605 million for the year ended 31 December 2010, representing an increase of 57.1% from U.S.$385 million for the year ended 31 December 2009. This increase in total non-interest income was mostly due to an increase in net fee and commission income, net gains from foreign currencies and precious metals and net gains from investments, decrease of net loss from interest based derivatives, partially offset by a decrease in net gains from trading securities and in acquisition of own debts.

Net fee and commission income

Net fee and commission income, calculated as fee and commission income less fee and commission expense, for the year ended 31 December 2010 increased 24.3% to U.S.$317 million from U.S.$255 million for the year ended 31 December 2009. The increase was due to the expansion of certain banking activities such as the settlement services for corporate clients and retail commission-based products.

Gains less losses arising from trading securities. Net income from trading securities for the year ended 31 December 2010 decreased 59.5% to U.S.$70 million from U.S.$173 million for the year ended 31 December 2009. This decrease primarily resulted from fewer distressed debt related opportunistic buying opportunities due to the broad recovery of prices in securities over the course of 2009 followed by generally lower volatility in 2010. By way of comparison, for the year ended 31 December 2009, the RTS stock exchange rose approximately 130% and only 14% for the year ended 31 December 2010.

Gains less losses arising from interest-based derivatives. Net loss from interest based derivatives for the year ended 31 December 2010 decreased 87.3% to a loss of U.S.$15 million from a loss of U.S.$118 million for the year ended 31 December 2009. The lower costs of interest rate swaps resulted from lower volatility of the financial markets in 2010 due to economic stabilisation compared to 2009, which allowed the Alfa Banking Group to hedge interest rate risk at a lower cost.

Gains less losses arising from foreign currencies and precious metals. Net income from foreign currencies for the year ended 31 December 2010 increased to U.S.$57 million from a loss of U.S.$51 million for the year ended 31 December 2009. This increase is primarily explained by an increase in foreign exchange translation gains less

losses by U.S.$198 million during the year ended 31 December 2010, which was partially offset by an increase in losses from term and spot deals by U.S.$96 million.

Gains less losses arising from investments. Net income from investments for the year ended 31 December 2010 increased to U.S.$87 million from a loss of U.S.$3 million for the year ended 31 December 2009. The increase in 2010 resulted from positive revaluation and subsequent sale of investments available for sale and positive revaluation of equity investments held at fair value through profit and loss.

Gains less losses arising from acquisition of own debts. Gains less losses arising from acquisition of own debts for the year ended 31 December 2010 decreased to a loss of U.S.$5 million from a gain of U.S.$49 million for the year ended 31 December 2009. This decrease resulted from a decrease in the acquisition of the Alfa Banking Group's own debts due to recovering markets and increases in the Alfa Banking Group's bond prices in 2010.

Other operating income. Other operating income mainly includes gains from sale of acquired distressed receivables and repossessed collateral. Other operating income remained almost unchanged for the year ended 31 December 2010 at U.S.$82 million as compared to U.S.$80 million for the year ended 31 December 2009.

Operating Expenses

Operating expenses for the year ended 31 December 2010 increased 12.7% to U.S.$842 million from U.S.$747 million for the year ended 31 December 2009. The increase was primarily attributable to an increase in salaries and bonus payments to staff as well as an increase in the overall number of employees.

Income Tax Expense

The Alfa Banking Group's income tax expense for the year ended 31 December 2010 increased to U.S.$147 million from U.S.$47 million for the year ended 31 December 2009. The increase in income tax expense was mainly due to higher taxable profits for the year ended 31 December 2010 as compared to the year ended 31 December 2009, which resulted in a higher taxable base. The statutory income tax rate applicable to the Russian subsidiaries of the Alfa Banking Group, which comprise the major part of the Alfa Banking Group's income, was 20% for both years. The statutory income tax rate applicable to the majority of income of the Alfa Banking Group from investment banking operations ranged from 0% to 15% for both years. The following table sets forth the Alfa Banking Group's income tax expense for the years ended 31 December 2010 and 2009:

	Year ended 31 December	
	2010	**2009**
	(U.S.$ millions)	
IFRS profit before tax	**700**	**124**
Theoretical tax charge at the prevailing statutory rate (2010: 20%, 2009: 20%)	140	25
Tax effect of items which are not deductible or assessable for taxation purposes:		
-Effect of change in estimates relating to deductibility of provision for loan impairment	20	-
-Income taxed at different rates	(1)	(1)
-Non-deductible expenses	7	7
-Unrecognised tax loss carried forwards	(5)	3
- (Income earned) / loss incurred in tax free jurisdictions	(14)	13
Income tax expense for the year	**147**	**47**

Profit for the Year

For the reasons above, and primarily as a result of high net interest income mainly due to a significant decrease in interest expense and lower provision for loan impairment charges caused by improvement in asset quality as well as a result of higher net non-interest income profit for the year ended 31 December 2010 increased to U.S.$553 million from U.S.$77 million for the year ended 31 December 2009.

Other Comprehensive Income for the Period

Other comprehensive income is related to available for sale investments (consisting of fair value gains less losses and reclassification adjustment for losses included in profit or loss), revaluation of premises and equipment, translation movement, net change in hedge of net investment in foreign operations and income tax recorded directly in other comprehensive income. The following table sets out details of changes in other comprehensive income for the years ended 31 December 2010 and 2009.

	Year ended 31 December	
	2010	**2009**
	(U.S.$ millions)	
Available for sale investments		
-Fair value gains less losses during the year	52	85
-Reclassification adjustment on losses included in profit or loss	(54)	33
Revaluation of premises and equipment	4	(19)
Effect of translation of the financial statements of foreign operations	(41)	(6)
Net change in hedge of net investment in foreign operations	14	61
Income tax recorded directly in other comprehensive income	3	(15)
Other comprehensive income/(loss) for the year	**(22)**	**139**

Other comprehensive income for the year ended 31 December 2010 decreased to negative U.S.$22 million from U.S.$139 million for the year ended 31 December 2009. The decrease in other comprehensive income is mainly the result of a decrease in net fair value gains relating to available for sale investments, decrease in reclassification adjustment on losses included in profit or loss relating to available for sale investments and higher effect of translation of the financial statements of foreign operations due to a changes in the U.S. dollar/Rouble/Euro exchange rates of translation, and lower net change in hedge of net investments in foreign operations.

Results of Operations for the Year Ended 31 December 2009 Compared with the Year Ended 31 December 2008

The following table sets forth the principal components of the Alfa Banking Group's consolidated statement of comprehensive income for the years ended 31 December 2009 and 2008.

	Year ended 31 December	
	2009	**2008**
	(U.S.$ millions)	
Interest income	2,519	2,824
Interest expense	(1,403)	(1,406)
Expenses directly attributable to leasing and deposit insurance	(41)	(37)
Net margin	**1,075**	**1,381**
Provision for loan impairment	(589)	(956)
Net margin after provision for loan impairment	**486**	**425**
Fee and commission income	339	421
Fee and commission expense	(84)	(80)
Gains less losses arising from trading securities	173	(42)
Gains less losses arising from interest based derivatives	(118)	116
Gains less losses arising from foreign currencies and precious metals	(51)	281
Gains less losses arising from investments	(3)	(23)
Gains arising from acquisition of own debts	49	139
Other provisions	5	(53)
Loss on disposal of subsidiaries	(5)	-
Other operating income	80	79
Operating expenses	(747)	(813)
Share of results and impairment of associates	-	(49)
Profit before tax	**124**	**401**
Income tax expense	(47)	(171)
Profit for the year	**77**	**230**
Other comprehensive income/(loss) for the year	**139**	**(188)**
Total comprehensive income for the year	**216**	**42**

Net Margin

The Alfa Banking Group's net margin before provisions for the year ended 31 December 2009 decreased 22.2% to U.S.$1,075 million from U.S.$1,381 million for the year ended 31 December 2008. This decrease resulted from a moderate decrease in interest income (a 10.8% decrease from U.S.$2,824 million as at 31 December 2008 to U.S.$2,519 as at 31 December 2009) while interest expense remained almost unchanged for the same period. The decrease in net margin also reflects a decrease in the Alfa Banking Group's total gross loans to customers, which fell to U.S.$14,953 as at 31 December 2009 from U.S.$19,160 million as at 31 December 2008.

The following table sets out the principal components of the Alfa Banking Group's interest income and interest expense for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	2008
	(U.S.$ millions)	
Interest income		
Loans and advances to corporate customers	1,683	2,062
Loans and advances to individuals	483	451
Due from other banks	194	159
Trading securities and repurchase receivables	107	125
Debt investments available for sale and repurchase receivables	52	27
Total interest income	**2,519**	**2,824**
Interest expense		
Term deposits of legal entities	(427)	(593)
Due to other banks	(419)	(251)
Debt securities issued	(144)	(230)
Current/settlement accounts	(73)	(116)
Term deposits of individuals	(236)	(109)
Syndicated and other debt	(23)	(60)
Subordinated debt	(80)	(46)
Other	(1)	(1)
Total interest expense	**(1,403)**	**(1,406)**
Expenses directly attributable to leasing and deposit insurance	(41)	(37)
Net margin	**1,075**	**1,381**

Interest Income

Total interest income for the year ended 31 December 2009 decreased 10.8% to U.S.$2,519 million from U.S.$2,824 million for the year ended 31 December 2008.

Interest income from loans and advances to corporate customers. Interest income from loans and advances to corporate customers for the year ended 31 December 2009 decreased by 18.4% to U.S.$1,683 million from U.S.$2,062 million for the year ended 31 December 2008. This decrease resulted from contraction of the Alfa Banking Group's loans and advances to corporate customers, lower rates of debt service by borrowers and decreases in interest rates in the second half of 2009 due to stabilisation of the market and competition among banks for credit-worthy borrowers. Gross loans to corporate customers as at 31 December 2009 decreased to U.S.$12,849 million from U.S.$16,473 million as at 31 December 2008 as a large proportion of borrowers failed to meet the more rigorous credit criteria of the Alfa Banking Group during the global financial crisis.

Interest income from loans and advances to individuals. Interest income from loans and advances to individuals for the year ended 31 December 2009 increased 7.1% to U.S.$483 million from U.S.$451 million for the year ended 31 December 2008. This increase resulted from increased interest rates on loans to individual customers due to increased activity among less credit-worthy customers.

Interest income due from other banks. Interest income due from other banks, correspondent accounts and overnight placements for the year ended 31 December 2009 increased 22.0% to U.S.$194 million from U.S.$159 million for the year ended 31 December 2008. This increase reflects both increased interest rates on the interbank market and growth of amounts due from other banks to U.S.$2,270 million as at 31 December 2009 from U.S.$1,837 million as at 31 December 2008. The increase in amounts due from other banks is primarily the result of Alfa Banking Group's placing excess liquidity with other banks in order to take advantage of the higher rates on the interbank market.

Interest income from trading securities and repurchase receivables. Interest income from debt trading securities and repurchase receivables for the year ended 31 December 2009 fell by 14.4% to U.S.$107 million from U.S.$125 million for the year ended 31 December 2008 primarily due to the Alfa Banking Group increasing the share of lower interest rate state and municipal debt securities in its portfolio as the Alfa Banking Group sought to decrease its portfolio's risk profile during the global financial crisis.

Debt investments available for sale and repurchase receivables. Interest income from debt investments available for sale and repurchase receivables for the year ended 31 December 2009 increased 92.6% to U.S.$52 million from U.S.$27 million for the year ended 31 December 2008. The increase was due to growth of amounts of debt investments available for sale and repurchase receivables to U.S.$1,009 million as at 31 December 2009 from U.S.$532 million as at 31 December 2008.

Interest Expense

Total interest expense for the year ended 31 December 2009 decreased 0.2% to U.S.$1,403 million from U.S.$1,406 million for the year ended 31 December 2008.

Interest expense related to term deposits of legal entities. Interest expense related to term deposits of legal entities for the year ended 31 December 2009 decreased 28.0% to U.S.$427 million from U.S.$593 million for the year ended 31 December 2008. This decrease in interest expense reflects the general decrease in the average amount of term deposits of legal entities outstanding for the year ended 31 December 2009 to U.S.$4,499 million from U.S.$5,183 million for the year ended 31 December 2008. The decrease in term deposits of legal entities in 2009 was due to corporate borrowers drawing down term deposits due to a lack of other readily available liquidity sources during the credit crisis.

Interest expense related to amounts due to other banks. Interest expense related to amounts due to other banks for the year ended 31 December 2009 increased 66.9% to U.S.$419 million from U.S.$251 million for the year ended 31 December 2008. This was primarily due to the significant amount of borrowing from the CBR by the Alfa Banking Group during 2009, which had significantly higher Rouble interest rates (11-13% per annum depending on the term) than borrowings on the interbank market undertaken before the liquidity crisis.

Interest expense related to debt securities issued. Interest expense related to debt securities issued for the year ended 31 December 2009 decreased 37.4% to U.S.$144 million from U.S.$230 million for the year ended 31 December 2008. This was primarily due to the Alfa Banking Group buying back debt securities issued, the outstanding amount of which decreased from U.S.$2,391 million as at 31 December 2008 to U.S.$1,565 million as at 31 December 2009, and due to the decrease of LIBOR and EURIBOR rates in 2009 as compared to 2008. The Alfa Banking Group repurchased some of its debt to take advantage of prices, which were depressed as a result of the global financial crisis.

Interest expense related to current/settlement accounts. Interest expense related to current/settlement accounts for the year ended 31 December 2009 decreased 37.1% to U.S.$73 million from U.S.$116 million for the year ended 31 December 2008 primarily due to a decrease in the amounts held in current and settlement accounts. Average amounts of current/settlement accounts decreased for the year ended 31 December 2009 21.8% to U.S.$5,061 million from U.S.$6,475 million for the year ended 31 December 2008 as a result of withdrawals of funds by corporate clients in need of liquidity during the financial crisis as well as increased demand for the higher interest rates of term deposits in 2009 and tight competition between Russian and foreign banks for retail current accounts.

Interest expense related to term deposits of individuals. Interest expense related to term deposits of individuals for the year ended 31 December 2009 increased 116.5% to U.S.$236 million from U.S.$109 million for the year ended 31 December 2008. This was due to a 59.5% increase in the average amounts of term deposits of individuals held by the Alfa Banking Group (to U.S.$3,395 million for the year ended 31 December 2009 from U.S.$2,129 million for the year ended 31 December 2008) as a result of individuals taking advantage of favourable interest rates during 2009 and the introduction and customer uptake of new retail deposit products promoted by Alfa Bank.

Interest expense related to syndicated and other debt. Interest expense related to syndicated and other debt for the year ended 31 December 2009 decreased 61.7% to U.S.$23 million from U.S.$60 million for the year ended 31 December 2008. This was primarily due to a repayment during first half of 2009 of a majority of syndicated and other debt in which the Alfa Banking Group participated which resulted in syndicated loans decreasing as at 31 December 2009 to U.S.$295 million from U.S.$1,064 million as at 31 December 2008.

Interest expense related to subordinated debt. Interest expense related to subordinated debt increased for the year ended 31 December 2009 73.9% to U.S.$80 million from U.S.$46 million for the year ended 31 December 2008. This was primarily due to the Alfa Banking Group obtaining two subordinated loans from Vnesheconombank for RUR10.4 billion and RUR29.2 billion, with fixed interest rates of 8% and 9.5% and maturing in 2019 and 2020 respectively. As at 31 December 2009 Alfa Banking Group's total subordinated debt amounted to U.S.$1,747 million (of which the book value of subordinated loans from Vnesheconombank was U.S.$1,309 million) compared with U.S.$464 million of as at 31 December 2008.

Provision for Loan Impairment

The following table sets out details of changes in the provision for loan impairment during 2009 and 2008 (apart from this, there was also a provision for due from other banks of U.S.$5 million as at 31 December 2008).

	Year ended 31 December	
	2009	**2008**
	(U.S.$ millions)	
Provision for loan impairment as at 1 January	**1,190**	**381**
Provisions during the year	628	981
Amounts written off as uncollectible	(276)	(120)
Disposal of a subsidiary	(3)	-
Translation movement	(35)	(52)
Provision for loan impairment as at 31 December	**1,504**	**1,190**

The Alfa Banking Group's provision for loan impairment during the year ended 31 December 2009 increased 26.4% to U.S.$1,504 million as compared to its provision for loan impairment of U.S.$1,190 million during the year ended 31 December 2008. The increased provisioning levels reflect the Alfa Banking Group's risk management policies as modified to deal with increased risk as a result of the global financial crisis. The Alfa Banking Group's overall provisioning level as a percentage of total gross loans and advances made to customers as at 31 December 2009 increased to 10.1% from 6.2% as at 31 December 2008. The proportion of non-performing loans within the Alfa Banking Group's loans and advances to customers as at 31 December 2009 increased as compared to 31 December 2008 due to an unfavourable market environment and stagnation of the economy. As at 31 December 2009, 21.2% of the Alfa Banking Group's total gross loans and advances to customers were overdue (i.e. loans with a delay of one day or more in repayment of interest or principal) (U.S.$3,167 million of total gross loans and advances to customers of U.S.$14,953 million), as compared to 10.8% as at 31 December 2008 (U.S.$2,068 million of total gross loans and advances to customers of U.S.$19,160 million), primarily due to an unfavourable market environment and stagnation of the economy. See "*Selected Statistical and Other Information—Loans and advances to customers—Provisions for Loan Impairment*".

Non-Interest Income

The following table sets out certain information regarding the Alfa Banking Group's non-interest income for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	2008
	(U.S.$ millions)	
Fee and commission income	339	421
Fee and commission expense	(84)	(80)
Gains less losses arising from trading securities	173	(42)
Gains less losses arising from interest based derivatives	(118)	116
Gains less losses arising from foreign currencies and precious metals	(51)	281
Gains less losses arising from investments	(3)	(23)
Gains arising from acquisition of own debts	49	139
Other provisions	5	(53)
Other operating income	80	79
Total non-interest income	**390**	**838**

The Alfa Banking Group's non-interest income for the year ended 31 December 2009 decreased 53.5% to U.S.$390 million from U.S.$838 million for the year ended 31 December 2008 driven primarily by a net gain arising from foreign currencies and precious metals and interest-rate derivatives in 2008 turning to net losses in 2009, a decrease in fee and commission income and a decrease in net gains arising from acquisition of own debts.

Net fee and commission income

The following table sets out certain information regarding the Alfa Banking Group's net fee and commission income for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	2008
	(U.S.$ millions)	
Fee and commission income		
Commission on settlement transactions	217	250
Commission on cash and foreign currency exchange transactions	57	69
Agency commission on insurance operations	19	21
Commission on guarantees issued	15	15
Commission on transactions with securities	11	8
Commission for consulting services	7	49
Commission from fiduciary activities	3	3
Other	10	6
Total fee and commission income	**339**	**421**
Fee and commission expense		
Commission on settlement transactions	(54)	(57)
Commission on transactions with securities	(12)	(4)
Commission on cash and foreign currency exchange transactions	(7)	(7)
Commission for consulting services	(7)	(6)
Commission for fiduciary activities	(1)	(2)
Other	(3)	(4)
Total fee and commission expense	**(84)**	**(80)**
Net fee and commission income	**255**	**341**

Net fee and commission income for the year ended 31 December 2009 decreased 25.2% to U.S.$255 million from U.S.$341 million for the year ended 31 December 2008. The decrease in fee and commission income in 2009 resulted from the contraction of certain banking activities such as equity and foreign exchange trading, corporate

finance deals (including mergers and acquisitions) and financial advisory services. Russian Rouble denominated components of fee and commission income also decreased in U.S. dollar terms due to devaluation of the Rouble in 2009. Fee and commission expenses were generally stable.

Gains less losses arising from trading securities. Net income from trading securities for the year ended 31 December 2009 increased to net income of U.S.$173 million from a net loss of U.S.$42 million for the year ended 31 December 2008. This increase resulted from an expansion of the securities trading portfolio in 2009 compared to 2008 (from U.S.$588 million as at 31 December 2008 to U.S.$1,372 million as at 31 December 2009) and successfully identifying undervalued bonds and equities in uncertain and volatile national and international markets in 2009.

Gains less losses arising from interest based derivatives. Net loss of interest based derivatives for the year ended 31 December 2009 was U.S.$118 million, which decreased from a net gain of U.S.$116 million for the year ended 31 December 2008 due to reduction in volatility of interest rates during 2009, which significantly impacted the fair value of interest rate swaps.

Gains less losses arising from foreign currencies and precious metals. Net loss from foreign currencies and precious metals for the year ended 31 December 2009 was U.S.$51 million, which decreased from a net income of U.S.$281 million for the year ended 31 December 2008. This decrease is primarily explained by a decrease in foreign exchange translation gains less losses for the year ended 31 December 2009 to U.S.$43 million from U.S.$792 million for the year ended 31 December 2008 due to the effect of depreciation in nominal terms of the U.S. dollar against the Rouble during 2009 on the Alfa Banking Group's negative Rouble derivatives position. Having a negative net Rouble balance sheet and derivatives position tends to result in foreign exchange translation gains during the period when the U.S. dollar appreciates against the Rouble in nominal terms and in foreign exchange translation losses during the period when the U.S. dollar depreciates against the Rouble in nominal terms.

Gains less losses arising from investments. Net loss from investments for the year ended 31 December 2009 decreased to U.S.$3 million from a net loss of U.S.$23 million for the year ended 31 December 2008, primarily due to increases in equity investments (MICEX, RTS, VISA, MasterCard, SWIFT) which for the year ended 31 December 2009 rose to U.S.$27 million from U.S.$16 million for the year ended 31 December 2008.

Gains less losses arising from acquisition of own debts. Net income from acquisition of own debts for the year ended 31 December 2009 decreased significantly to U.S.$49 million from U.S.$139 million for the year ended 31 December 2008 due to a recovery in prices of debt previously issued by the Alfa Banking Group resulting in fewer buying opportunities.

Other provisions. The Alfa Banking Group provisions in relation to these items changed to a gain of U.S.$5 million for 2009 from an expense of U.S.$53 million for 2008. This change primarily reflected an improvement in the quality of credit related commitment during the year 2009, which enabled Alfa Banking Group to release provisions for losses on credit related commitments in the amount of U.S.$32 million and was partially offset by an increase of provisions for impairment of other financial assets in 2009 to U.S.$23 million (from U.S.$13 million in 2008).

Other operating income. Other operating income for the year ended 31 December 2009 increased to U.S.$80 million from U.S.$79 million for the year ended 31 December 2008. In 2009 other operating income mostly consisted of gains from sale of acquired distressed receivables in the amount of U.S.$44 million, penalties received in the amount of U.S.$8 million and gains from disposal of repossessed collateral in the amount of U.S.$7 million.

Operating Expenses

The following table sets out the major components of the Alfa Banking Group's operating expenses for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	**2008**
	(U.S.$ millions)	
Staff costs	393	430
Computer and telecommunications expenses	41	53
Rent	80	84
Depreciation	44	48
Expenses related to premises and equipment	43	37
Consulting and professional services	29	30
Advertising and marketing	16	21
Maintenance	23	25
Taxes other than income tax	10	24
Administrative expenses	11	17
Amortisation of intangible assets	30	9
Travel expenses	5	9
Other	22	26
Total operating expenses	**747**	**813**

For the year ended 31 December 2009 operating expenses decreased 8.1% to U.S.$747 million from U.S.$813 million for the year ended 31 December 2008. The decrease in operating expenses for the year ended 31 December 2009 was primarily attributable to a 8.6% decrease in staff costs to U.S.$393 million from U.S.$430 million for the year ended 31 December 2008 due to a 10.6% reduction in the number of employees. A 22.6% decrease in computer and telecommunications expenses to U.S.$41 million from U.S.$53 million due to a drop in spending on the purchase and installation of new computer systems also contributed to the decrease. The decrease in operating expenses for the year ended 31 December 2009 was partially offset by a 233.3% increase in amortisation of intangible assets, to U.S.$30 million from U.S.$9 million for the year ended 31 December 2008.

Share of Results and Impairment of Associates

The Alfa Banking Group's share of results and impairment of associates for the year ended 31 December 2009 changed to nil from a loss of U.S.$49 million for the year ended 31 December 2008. The Alfa Banking Group's share of results and impairment of associates during year ended 31 December 2008 was related to its investment in Amtel-Vredestein N.V., which was written down to nil in 2008.

Income Tax Expense

The Alfa Banking Group's income tax expense for the year ended 31 December 2009 decreased 72.5% to U.S.$47 million from U.S.$171 million for the year ended 31 December 2008 as a result of decreased taxable profit and, to a lesser extent, the decrease in the corporate tax rate in Russia from 24% to 20% from 1 January 2009. The Alfa Banking Group's effective corporate tax rate in 2009 was 38% as compared to 43% in 2008. The decrease in effective tax rate was primarily due to a one-off effect of a change in estimates relating to deductibility of provision for loan impairments made in 2008. The following table sets forth the Alfa Banking Group's income tax expense for the years ended 31 December 2009 and 2008:

	Year ended 31 December	
	2009	**2008**
	(U.S.$ millions)	
IFRS profit before tax..	**124**	**401**
Theoretical tax charge at the statutory rate (2009: 20%, 2008: 24%)	25	96
Tax effect of items which are not deductible or assessable for taxation purposes:		
-Impact of change in tax rate to 20% effective from 1 January 2009	-	(1)
-Effect of change in estimates relating to deductibility of provision for loan impairment	-	114
-Income taxed at different rates...	(1)	(4)
-Non-deductible expenses	7	13
-Unrecognised tax loss carried forward..	3	-
-Loss incurred/(income earned) in low tax jurisdictions	13	(47)
Income tax expense for the year..	**47**	**171**

Profit for the period

For the reasons discussed above, the Alfa Banking Group's profit for the year ended 31 December 2009 decreased 66.5% to U.S.$77 million from U.S.$230 million for the year ended 31 December 2008.

Other Comprehensive Income for the Period

The following table sets out details of changes in other comprehensive income for the years ended 31 December 2009 and 2008.

	Year ended 31 December	
	2009	**2008**
	(U.S.$ millions)	
Available for sale investments		
-Fair value gains less losses on investments during the year	85	(61)
-Reclassification adjustment for losses included in profit or loss	33	5
Revaluation of premises..	(19)	(5)
Effect of translation of the financial statements to U.S. dollar as presentation currency	(6)	(390)
Net change in hedge of net investment in foreign operations	61	249
Share of other comprehensive income of associates	-	(1)
Income tax recorded directly in other comprehensive income.....................	(15)	15
Other comprehensive income/(loss) for the year	**139**	**(188)**

The Alfa Banking Group's other comprehensive income for the year ended 31 December 2009 increased to U.S.$139 million from a loss of U.S.$188 million for the year ended 31 December 2008. The increase in other comprehensive income is mainly the result of translation effects after the Rouble stopped its sharp devaluation

against the Alfa Banking Group's presentation currency, the U.S. dollar in 2009. This was partially offset by a net change in the related hedge during the relevant periods of significant volatility of currency rates.

Cash Flows

The following table sets out the Alfa Banking Group's main sources and uses of cash for the years ended 31 December 2010, 2009 and 2008:

	Year ended 31 December		
	2010	**2009**	**2008**
	(U.S.$ millions)		
Net cash used in operating activities	(35)	(724)	2,785
Net cash used in investing activities	(631)	(932)	(506)
Net cash from/(used in) financing activities	1,922	(234)	(939)
Net increase/(decrease) in cash and cash equivalents	**1,256**	**(1,890)**	**1,340**
Cash and cash equivalents at the beginning of the period	1,966	3,860	2,634
Effect of exchange rate changes on cash and cash equivalents	(40)	(4)	(114)
Cash and cash equivalents at the end of the year	**3,182**	**1,966**	**3,860**

Operating Activities

Cash from operating activities is comprised of net increase or decrease in: mandatory cash balances with central banks, trading securities and repurchase receivables, loans and advances to customers and amounts due to other banks, customer accounts, due from other banks, other assets and other financial assets and other liabilities and other financial liabilities.

For the year ended 31 December 2010, the Alfa Banking Group had net cash outflows of U.S.$35 million in respect of its operating activities, as compared to net cash outflows of U.S.$724 million in respect of operating activities for the year ended 31 December 2009 (in each case excluding interest paid on debt securities issued, syndicated and other debt and subordinated debt which is included in net cash flows used in financing activities). The decrease in net cash outflows primarily resulted from repayment of a substantial part of funding from the CBR in 2009 and growth of customer accounts in 2010 compared to 2009. This was partially offset by rapid growth of the Alfa Banking Group's loans and advances to customers in 2010. The net cash outflow relating to increased loans and advances to customers amounted to U.S.$3,706 million compared to a net cash inflow from repayment of loans in the amount of U.S.$3,628 million in 2009.

The Alfa Banking Group had net cash outflows of U.S.$724 million in respect of operating activities for the year ended 31 December 2009, as compared to net cash inflows of U.S.$2,785 million for the year ended 31 December 2008 (in each case excluding interest paid on debt securities issued, syndicated and other debt and subordinated debt which is included in net cash flows used in financing activities). The decrease in net cash inflows primarily resulted from net decrease in due to other banks in the amount of U.S.$5,980 million and net decrease in loans and advances to customers in the amount of U.S.$3,628 million for the year ended 31 December 2009 as compared to net increase in due to other banks in the amount of U.S.$5,306 million (which was primarily CBR funding) and net increase in loans and advances to customers in the amount of U.S.$4,307 million for the year ended 31 December 2008.

Investing Activities

Cash from investing activities is comprised of cash flows from acquisition of investments available for sale, proceeds from disposal of investments available for sale, acquisition of investments at fair value through profit or loss, disposal of investments at fair value through profit or loss, acquisition of investments held to maturity, proceeds from disposal of investments held to maturity, proceeds from disposal of investment property, acquisition of premises, equipment and intangible assets, proceeds from disposal of premises, equipment and intangible

assets, proceeds from disposal of subsidiaries (net of cash disposed of), acquisition of subsidiaries (net of cash acquired), dividend income received.

The Alfa Banking Group's investing activities for the year ended 31 December 2010 resulted in net cash outflows of U.S.$631 million, as compared to net cash outflows of U.S.$932 million in respect of its investing activities for the year ended 31 December 2009. The decrease in net cash outflows primarily resulted from lower net cash outflows from acquisition and disposal of investments available for sale in 2010 compared to 2009 and was partially offset by the acquisition of debt investments held to maturity during 2010 and the corresponding net cash outflow amounting to U.S.$318 million.

The Alfa Banking Group's investing activities for the year ended 31 December 2009 resulted in net cash outflows of U.S.$932 million, as compared to net cash outflows of U.S.$506 million in respect of its investing activities for the year ended 31 December 2008. The increase in net cash outflows primarily resulted from acquisition of investments available for sale, including investments in Pamplona Credit Opportunities Fund in the amount of €209.5 million in October 2008 and Pamplona Capital Partners I, L.P. in the amount of €64.4 million in July 2009, and investments in Russian Federation bonds and Eurobonds and corporate Eurobonds, partially offset by the spin-off of Alfa-Bank Kazakhstan.

Financing Activities

Cash from financing activities is comprised of share capital contribution, proceeds from syndicated and other debt, repayment of syndicated and other debt, interest paid on syndicated and other debt, proceeds from debt securities issued, repayment of debt securities issued, interest paid on debt securities in issue, proceeds from subordinated debt, repayment of subordinated debt and interest paid on subordinated debt. As described above, fluctuations in cash flow relating to the Alfa Banking Group's financing activities are primarily attributable to the interaction between the Alfa Banking Group's fundraising using other borrowed funds and the Alfa Banking Group's repayment of those other borrowed funds, and hence also to both the amount of other borrowed funds raised by the Alfa Banking Group in any given period and the varying tenors of those borrowings.

The Alfa Banking Group's financing activities for the year ended 31 December 2010 resulted in net cash inflows of U.S.$1,922 million, as compared to net cash outflows of U.S.$234 million in respect of its financing activities for the year ended 31 December 2009 (in each case inclusive of interest paid on borrowed funds and subordinated debt). The increase in net cash inflows primarily resulted from proceeds received from medium term notes, loan participation notes and promissory notes issued in 2010 and was partially offset by cash outflows representing repayment of subordinated notes callable in December 2010. In addition, no additional capital was received from the shareholders in 2010 as compared to a U.S.$320 million capital injection in June 2009.

The Alfa Banking Group's financing activities resulted in net cash outflows for the year ended 31 December 2009 of U.S.$234 million, as compared to net cash outflows of U.S.$939 million in respect of its financing activities for the year ended 31 December 2008 (in each case inclusive of interest paid on borrowed funds and subordinated debt). The decrease in net cash outflows primarily resulted from the reduction of outflows relating to the repayment of foreign borrowings as a result of a decrease in foreign borrowings from U.S.$3,240 million for the year ended 31 December 2008 to U.S.$1,495 million for the year ended 31 December 2009, cash inflows from additional share capital received by the Alfa Banking Group from its shareholders (U.S.$320 million in June 2009), cash inflows from subordinated loans provided by Vnesheconombank in January and October 2009 (RUR39.6 billion) as part of the government's programme to support liquidity in the Russian banking sector. In the year ended 31 December 2009, the Alfa Banking Group received proceeds from syndicated and other debt, debt securities issued and subordinated debt of U.S.$1,846 million, as compared to U.S.$1,393 million during the year ended 31 December 2008.

Total Assets

The following table sets out the Alfa Banking Group's assets as at 31 December 2010, 2009 and 2008:

	31 December		
	2010	**2009**	**2008**
	(U.S.$ millions)		
Cash and cash equivalents	3,182	1,966	3,860
Mandatory cash balances with central banks	189	150	79
Trading securities	1,426	1,372	588
Repurchase receivables relating to trading securities	914	-	151
Due from other banks	2,754	2,270	1,837
Loans and advances to customers	16,795	13,449	17,970
Investments	2,108	1,508	372
Repurchase receivables relating to investments	-	-	215
Other financial assets	474	251	1,195
Other assets	287	277	371
Premises and equipment	304	366	390
Deferred tax assets	45	37	24
Total assets	**28,478**	**21,646**	**27,052**

The Alfa Banking Group's total assets as at 31 December 2010 increased by 31.6% to U.S.$28,478 million from U.S.$21,646 million as at 31 December 2009. The increase in total assets was primarily due to the growth of the loans and advances to customers, trading securities (including repurchase receivables) and cash equivalents.

Cash and Cash Equivalents

Cash and cash equivalents is composed of cash on hand, cash balances with central banks (other than mandatory cash balances), correspondent and settlement accounts with banks and financial institutions and overnight placements with other banks.

The Alfa Banking Group's cash and cash equivalents as at 31 December 2010 increased 61.9% to U.S.$3,182 million from U.S.$1,966 million as at 31 December 2009 as a result of a significant expansion of the balance sheet in 2010 where excess liquidity was effectively placed on overnight deposits and correspondent accounts with reputable Russian and foreign banks.

Cash and cash equivalents as at 31 December 2009 decreased by 49.1% to U.S.$1,966 million from U.S.$3,860 million as at 31 December 2008. This decrease was primarily attributable to substituting cash balances on hand and in correspondent accounts with term deposits on the interbank market (which bear higher interest rates), to investments in debt securities and to overall balance sheet reduction and lower reserve requirements.

Trading Securities and Repurchase Receivables relating to Trading Securities

Trading securities and repurchase receivables related to trading securities is comprised of corporate Eurobonds, corporate bonds, Eurobonds of other states, municipal Eurobonds, municipal bonds, Russian Federation Eurobonds, bonds of other states, corporate shares and ADRs and GDRs.

The Alfa Banking Group's portfolio of trading securities and repurchase receivables as at 31 December 2010 increased by 70.6% to U.S.$2,340 million from U.S.$1,372 million as at 31 December 2009 primarily due to the Alfa Banking Group's resumption of repo operations which had been halted in 2009 due to market turbulence. As at 31 December 2010, the repurchase receivables portfolio amounted to U.S.$914 million compared to nil as at 31 December 2009, which is almost fully related to corporate and government debt securities. The increase of total trading securities portfolio was partially offset by a drop in eurobonds of foreign states in the portfolio driven by trading decisions (such as the sale of Dutch and Spanish eurobonds owned by ATB). As at 31 December 2010, the trading securities and repurchase receivables portfolio represented 8.2% of the Alfa Banking Group's total assets, as compared to 6.3% as at 31 December 2009.

The Alfa Banking Group's portfolio of trading securities and repurchase receivables as at 31 December 2009 increased by 85.7% to U.S.$1,372 million from U.S.$739 million as at 31 December 2008 mostly due to corporate bond (and Eurobond) portfolio growth (to U.S.$937 million as at 31 December 2009 from U.S.$572 million as at 31 December 2008) which occurred as the Alfa Banking Group sought to capitalise on uncertain and volatile markets by purchasing undervalued securities. The trading securities and repurchase receivables portfolio represented 6.3% of the Alfa Banking Group's total assets as at 31 December 2009 as compared to 2.7% as at 31 December 2008. The Alfa Banking Group invested in such liquid fixed income securities, which its management believed were under-valued when purchased for the purpose of generating profit in future periods.

Due from Other Banks

Changes in amounts due from other banks are largely a function of the Alfa Banking Group's liquidity position.

Amounts due from other banks to the Alfa Banking Group as at 31 December 2010 increased by 21.3% to U.S.$2,754 million from U.S.$2,270 million as at 31 December 2009. This increase was primarily driven by resumption of reverse repo operations with other banks, which amounted to U.S.$149 million as at 31 December 2010 and a subordinated loan granted to ABH Ukraine Group in the amount of U.S.$248 million.

Amounts due from other banks to the Alfa Banking Group as at 31 December 2009 increased by 23.6% to U.S.$2,270 million from U.S.$1,837 million as at 31 December 2008. This increase was primarily attributable to substituting the extra cash balances on hand and in correspondent accounts with other banks with longer term deposits with the interbank market with better interest rates.

Loans and Advances to Customers

Net loans and advances to customers as at 31 December 2010 increased by 24.9% to U.S.$16,795 million from U.S.$13,449 million as at 31 December 2009, as a result of an increase in corporate, SME and consumer lending, which is consistent with the current strategy of the Alfa Banking Group. This increase was partially offset by decrease of the finance lease portfolio. The overall size of new lending to corporate and SME clients increased in 2010 as a result of the economy and business activity showing signs of recovery following the financial crisis. Mortgage and car loans also decreased as a result of the Alfa Banking Group's decision to scale back these types of lending during the crisis.

Net loans and advances to customers as at 31 December 2009 decreased by 25.2% to U.S.$13,449 million from U.S.$17,970 million as at 31 December 2008, as a result of the Alfa Banking Group's risk management policies, which restricted lending to higher-risk borrowers during the financial downturn in the face of a general deterioration of corporate borrowers' credit quality in Russia (See "*Risk Management—Credit Risk*"), increased systemic risks and stagnation of certain important industries to which the Alfa Banking Group has historically acted as a lender such as construction, machinery, metallurgy and transportation. Due to a lack of high quality corporate borrowers during the financial crisis, a significant portion of requested loans were not extended. Provision for loan impairment grew by 26.4% during 2009, from U.S.$1,190 million to U.S.$1,504 million, which also resulted in a decrease in net loans and advances to customers. As at 31 December 2009, net loans and advances to customers represented 62.1% of the Alfa Banking Group's total assets.

Investment in Pamplona funds

On 3 July 2009, the Alfa Banking Group acquired from an entity in the Alfa Consortium, Alfa Overseas Investments Ltd., an investment in Pamplona Capital Partners I, L.P. Fund for €64.4 million. Pamplona Capital Partners I, L.P. Fund is a private equity fund, investing primarily in industrial companies in Europe.

On 7 October 2009, the Alfa Banking Group acquired from Alfa Overseas Investments Ltd. an investment in Pamplona Credit Opportunities Fund for €209.5 million. Pamplona Credit Opportunities Fund is a multi-strategy credit fund investing in corporate and structured credit with a European focus.

The above mentioned funds are managed by Pamplona Capital Management LLP, an independent investment manager. Mr. Alex Knaster, a member of the Board of Directors of Alfa Bank, is the Chairman and CEO of

Pamplona Capital Management LLP. The Alfa Banking Group has no involvement in the management of these funds.

In May 2010 Pamplona Capital Partners I, L.P. Fund sold part of its investments and in July 2010 made a distribution to the partners of the Fund. The Alfa Banking Group's share of such distribution was €30.8 million (or US$39 million).

On 9 July 2010, the Alfa Banking Group acquired from Alfa Overseas Investments Ltd. an investment in Pamplona Managed Accounts for US$39 million. Pamplona Managed Accounts Limited is a private investment fund investing primarily in hedge funds.

On 1 November 2010 and 2 December 2010, the Alfa Banking Group sold its limited partnership interest in Pamplona Capital Partners I L.P. and its investment in Pamplona Managed Accounts Limited, respectively, to Alfa Overseas Investments Ltd. for a total consideration of US$139 million.

The balance sheet value of the Alfa Banking Group's investment in Pamplona Credit Opportunities Fund was U.S.$336 million at 31 December 2010.

Total Liabilities

The following table sets out the Alfa Banking Group's liabilities as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	**2009**	**2008**
		(U.S.$ millions)	
Due to other banks	2,097	1,108	7,407
Customer accounts	16,812	13,686	12,582
Debt securities issued	4,107	1,565	2,391
Syndicated and other debt	190	295	1,064
Subordinated debt	1,395	1,747	464
Other financial liabilities	332	322	833
Other liabilities	327	123	110
Deferred tax liability	139	102	39
Total liabilities	**25,399**	**18,948**	**24,890**

The Alfa Banking Group's total liabilities as at 31 December 2010 increased by 34.0% to U.S.$25,399 million from U.S.$18,948 million as at 31 December 2009. This increase in total liabilities was primarily due to the increase of customer accounts, both corporate and retail, which represent the core funding source for the Alfa Banking Group, as well as increase of amounts due to other banks, which represent a relatively low-cost source of funding, as well as an increase in the volume of debt securities issued due to a new standalone euro medium-term notes issue with a total nominal amount of U.S.$600 million done in March 2010, loan participation notes with a total principal amount of U.S.$1,000 million issued in September 2010 and U.S.$1,206 million net increase in promissory notes and domestic bonds during the year ended 31 December 2010.

The Alfa Banking Group's total liabilities as at 31 December 2009 decreased by 23.9% to U.S.$18,948 million from U.S.$24,890 million as at 31 December 2008. This decrease in total liabilities was primarily due to decrease in borrowings from other banks, mainly from the CBR, and repayment of a significant part of debt securities issued and syndicated loans. The overall decrease was partly offset by an 8.8% increase in customer accounts and RUR39.6 billion in subordinated loans from Vnesheconombank.

Customer Accounts

The following table sets out the composition of the Alfa Banking Group's customer account portfolio as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	**2009**	**2008**
	(U.S.$ millions)		
Commercial organisations:			
Current/settlement accounts	2,826	1,818	2,024
Term deposits	4,755	3,970	2,947
Individuals:			
Current/demand accounts	3,595	2,901	3,392
Term deposits	4,465	4,037	2,754
State and public organisations:			
Current/settlement accounts	10	-	2
Term deposits	1,161	960	1,463
Total customer accounts	**16,812**	**13,686**	**12,582**

Current accounts maintained by commercial organisations with the Alfa Banking Group as at 31 December 2010 increased by 56.0% to U.S.$2,826 million from U.S.$1,818 million as at 31 December 2009, primarily due to increased economic stability which resulted in legal entities returning cash balances back into current accounts with banks and also due to the offering of new products (such as settlement services) by the Alfa Banking Group. Current accounts maintained by commercial and state organisations with the Alfa Banking Group as at 31 December 2009 decreased by 10.2% to U.S.$1,818 million from U.S.$2,024 million as at 31 December 2008, primarily due to withdrawals by corporate clients in need of liquidity during the financial crisis.

Term deposits from commercial organisations as at 31 December 2010 increased 19.8% to U.S.$4,755 million from U.S.$3,970 million as at 31 December 2009. This increase appears to relate to resumption of corporates placing excess cash in term deposits in banks due to economic stabilisation as well as an increase in the Alfa Banking Group's market share and attractive interest rates. Term deposits from commercial organisations as at 31 December 2009 increased to U.S.$3,970 million from U.S.$2,947 million as at 31 December 2008. This increase reflects the commercial organisations taking advantage of favourable (compared to prior periods) interest rates during 2009 as well as the solid (in the view of the management) financial position and reputation of the Alfa Banking Group during the financial crisis.

Current accounts maintained by individuals as at 31 December 2010 with the Alfa Banking Group increased 23.9% to U.S.$3,595 million as compared to U.S.$2,901 million as at 31 December 2009 mostly due to the introduction of new retail products aimed at attracting demand accounts from individuals who are considered by the Alfa Banking Group to be the most stable and relatively cheap funding base. This compared to individual current accounts as at 31 December 2009 decreasing by 14.5% to U.S.$2,901 million from U.S.$3,392 million as at 31 December 2008 reflecting increased demand for retail term deposits in that period, which offered significantly higher interest rates (as compared to prior periods), as well as tight competition between Russian and foreign banks for the retail demand deposits.

Although Russian law provides that term deposits of individuals can be withdrawn at any time without incurring penalties for the depositor (other than decreased interest rates), the decreased range and increasing cost of other sources of funding (particularly on the international syndicated loan and capital markets) has made retail term deposits an increasingly attractive funding option. During 2009 and 2010 the Alfa Banking Group has responded to this change by developing incentive schemes to attract new retail term deposits, including repositioning its rates relative to its peer group. The size of these increases has varied according to the tenor and currency of the deposit programme in question, but in general has averaged between 0.1% and 1%.

Term deposits placed by individuals with the Alfa Banking Group as at 31 December 2010 increased by 10.6% to U.S.$4,465 million from U.S.$4,037 million as at 31 December 2009 primarily due to relatively high interest rates and the offering by the Alfa Banking Group of a wider spectrum of deposit products for individuals. This compared to term deposits placed by individuals as at 31 December 2009 increasing by 46.6% to U.S.$4,037 million from U.S.$2,754 million as at 31 December 2008, due to introduction of new deposit products and attractive (compared to prior periods) interest rates. Management also believes term deposits placed by individuals increased due to the positive reputation of the Alfa Banking Group during the financial crisis.

Debt Securities Issued, Syndicated and Other Debt and Subordinated Debt

Debt securities issued, syndicated and other debt and subordinated debt serve as an important funding source for the Alfa Banking Group. As at 31 December 2010, the aggregate amount of the Alfa Banking Group's indebtedness under these instruments was U.S.$5,692 million, which represented 22.4% of the Alfa Banking Group's total liabilities at this date. This compared to an aggregate amount of debt securities issued, syndicated and other debt and subordinated debt of U.S.$3,607 million (or 19.0% of total liabilities) as at 31 December 2009 and U.S.$3,919 million (or 15.7% of total liabilities) as at 31 December 2008. The lower percentages of the Alfa Banking Group's total liabilities represented by these instruments as at 31 December 2009 and 31 December 2008 as compared as at 31 December 2010 are mainly a result of the global financial crisis and its impact on global debt markets. For example, in 2010 the Alfa Banking Group has made extensive use of the opportunity to raise short term (up to one year) funding by issuing local Rouble promissory notes, and also issued two series of U.S. dollar denominated notes with 5 and 7 year maturities.

The following table sets out the Alfa Banking Group's debt securities issued, syndicated and other loans and subordinated debt as at 31 December 2010, 2009 and 2008.

	As at 31 December		
	2010	**2009**	**2008**
	(U.S.$ millions)		
Syndicated and other debt	190	295	1,064
Notes issued under the DPR Programme	155	346	694
Euro Medium Term Notes maturing 2009	-	-	381
Euro Medium Term Notes maturing 2012	346	346	382
Euro Medium Term Notes maturing 2013	282	294	303
Notes maturing 2015	554	-	-
Notes maturing 2017	985	-	-
Euro-Commercial Paper Notes	-	-	219
Promissory notes and domestic bonds	1,785	579	412
Subordinated debt	1,395	1,747	464
Total	**5,692**	**3,607**	**3,919**

Due to Other Banks

The Alfa Banking Group also engages in short term interbank borrowings, primarily as part of its correspondent banking business and to regulate its liquidity. The following table sets out the Alfa Banking Group's amounts due to other banks as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	**2009**	**2008**
	(U.S.$ millions)		
Correspondent accounts and overnight placements of other banks:			
- Russian Federation	129	148	97
- Other countries	21	20	174
Term placements of other banks	1,221	938	6,727
Sale and repurchase agreements	726	2	409
Total due to other banks	**2,097**	**1,108**	**7,407**

Total due to other banks as at 31 December 2010 amounted to U.S.$2,097 million as compared to U.S.$1,108 million as at 31 December 2009. This increase is primarily due to an increase in term placements of other banks which, due to the general interbank interest rate decline in 2010, served as a cheap source of funding for the Alfa Banking Group, as well as a significant increase in repo agreements. This was partially offset by a decrease in correspondent accounts and overnight placements of other banks.

Total due to other banks as at 31 December 2009 amounted to U.S.$1,108 million as compared to U.S.$7,407 million as at 31 December 2008. This decrease primarily resulted from the almost full amortisation of borrowings from the CBR, which were effectively substituted by other sources, such as corporate and retail customer accounts and subordinated loans from Vnesheconombank. The Alfa Banking Group began receiving funding from the CBR in autumn 2008 to deal with increased liquidity risks and financial instability in the Russian banking sector.

Analysis by Segment

The Alfa Banking Group's primary format for reporting segment information is business segments. The Alfa Banking Group currently describes its business in terms of three main business segments:

1. *Corporate and investment banking*, which provides a broad range of commercial and investment banking services and products, including corporate lending, corporate deposit services, trade finance operations, structured corporate lending, securities trading, debt and equity capital markets, derivatives, structured financing, corporate finance and merger and acquisition advisory services to large corporations and SMEs, and other financial institutions;

2. *Retail banking*, which provides financial services, including deposit services, credit and debit card services, lending (including consumer loans, personal instalment loans, credit card lending, car loans and mortgages), money transfers and private banking services to individuals; and

3. *Treasury operations*, which manage the Alfa Banking Group's funding activities and investment in liquid assets, as well as short term money market and promissory note operations.

The accounting policies of the operating segments of the Alfa Banking Group under IFRS 8 are materially the same as those described in the summary of significant accounting policies except for: (i) the fair value changes in available for sale securities that are reported within the segments' profits or losses rather than in other comprehensive income, (ii) use of a transfer pricing system and (iii) different classification of certain lines of income and expenses, and (iv) some balances and operations are excluded from the segment analysis since they are monitored separately and on a less regular basis (including situations where the balance is not allocated and related to income or where expenses are allocated for the segment analysis and vice versa). Consequently, financial statements line items in analysis by segment in accordance with IFRS 8 may not equal respective financial statements line items. Please refer to Note 30 to the 2009 and 2010 ABH Financial Consolidated Financial Statements for reconciliation of segment information to respective financial statement items.

The following tables set out segmental income statement information for the main reportable business segments of the Alfa Banking Group for the years ended 31 December 2010, 2009 and 2008:

Year ended 31 December 2010	**Corporate and investment banking**	**Retail banking**	**Treasury**	**Total**
		(U.S.$ millions)		
Segment revenues:				
Total external revenues	1,710	824	141	2,675
Interest income from other segments	347	357	1,502	2,206
Total segment revenues	**2,057**	**1,181**	**1,643**	**4,881**
Segment profit before tax	**290**	**208**	**122**	**620**

Year ended 31 December 2009	Corporate and investment banking	Retail banking	Treasury	Total
	(U.S.$ millions)			
Segment revenues:				
Total external revenues	1,795	679	92	2,566
Interest income from other segments	422	367	1,943	2,732
Total segment revenues	**2,217**	**1,046**	**2,035**	**5,298**
Segment profit before tax	**450**	**(20)**	**(111)**	**319**

Year ended 31 December 2008	Corporate and investment banking	Retail banking	Treasury	Total
	(U.S.$ millions)			
Segment revenues:				
Total external revenues	2,162	670	345	3,177
Interest income from other segments	615	247	2,003	2,865
Total segment revenues	**2,777**	**917**	**2,348**	**6,042**
Segment profit before tax	**145**	**(41)**	**378**	**482**

The following tables set out segmental balance sheet information for the main reportable business segments of the Alfa Banking Group as at 31 December 2010, 2009 and 2008:

As at 31 December 2010	Corporate and Investment Banking	Retail banking	Treasury	Total
	(U.S.$ millions)			
Total segment assets	16,762	2,195	5,217	24,174
Total segment liabilities	10,111	5,930	6,150	22,191

As at 31 December 2009	Corporate and Investment Banking	Retail banking	Treasury	Total
	(U.S.$ millions)			
Total segment assets	11,933	1,977	3,244	17,154
Total segment liabilities	6,189	4,334	4,745	15,268

As at 31 December 2008	Corporate and Investment Banking	Retail banking	Treasury	Total
	(U.S.$ millions)			
Total segment assets	15,109	2,590	3,936	21,635
Total segment liabilities	6,904	2,745	10,669	20,318

Contingencies, Commitments and Derivative Financial Instruments

The Alfa Banking Group enters into certain financial instruments with off balance sheet risk in the normal course of business to meet the needs of its clients, as well as for proprietary reasons, including the hedging of foreign currency translation movements in capital. Such instruments, which include guarantees and letters of credit, involve varying degrees of credit risk. The primary purpose of these instruments is to ensure that funds are available to clients as required. The Alfa Banking Group enters into derivative contracts with professional counterparties on standardised terms and conditions. Such contracts are generally traded in the over-the-counter market. The Alfa Banking Group also has capital commitments, which cover items such as modernisation and repair of its premises and operating lease commitments, which are not reflected in the Alfa Banking Group's balance sheet and are only disclosed in the notes to the financial statements. The Alfa Banking Group also faces potential liabilities as a result of legal proceedings brought against it, or as a result of varying interpretations and changes of the Russian and other jurisdictions' tax legislation.

Credit Related Commitments

The primary purpose of guarantees and letters of credit is to ensure that funds are available to customers and counterparties as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Alfa Banking Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Alfa Banking Group on behalf of a customer authorising a third party to draw drafts on the Alfa Banking Group up to a stipulated amount under specific terms and conditions, are usually collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing. Outstanding credit related commitments were as follows as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	**2009**	**2008**
		(U.S.$ millions)	
Cross-guarantees	-	905	1,848
Guarantees issued	1,443	790	697
Export letters of credit	32	60	216
Import letters of credit	130	99	493
Total credit related commitments	**1,605**	**1,854**	**3,254**

Cross guarantees represent guarantees provided by Alfa Bank to the CBR in favour of other Russian banks under a special CBR lending programme. Alfa Bank also received such guarantees for a part of its borrowings from the CBR.

The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Capital Commitments

As at 31 December 2010 the Alfa Banking Group had capital commitments of U.S.$23 million, of which U.S.$9 million related to construction expenditure and the modernisation of premises and U.S.$14 million related to the purchase and installation of new computer systems. The Alfa Banking Group's management has already allocated the necessary resources in respect of these commitments, and believes that future income and funding will be sufficient to cover this and any similar commitments in the future.

Derivative Financial Instruments

The Alfa Banking Group uses foreign exchange and other derivative financial instruments that are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value, which varies as a result of

fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The table below sets out derivative contracts of the Alfa Banking Group as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		**2009**		**2008**	
	(U.S.$ millions)					
	Fair Value		**Fair Value**		**Fair Value**	
	Positive	**Negative**	**Positive**	**Negative**	**Positive**	**Negative**
Derivative financial instruments other than foreign exchange forward, swap contracts..	23	(54)	26	(96)	272	(93)
Currencies receivable or payable under foreign exchange contracts and precious metals based contracts (excluding options).	83	(109)	37	(78)	719	(440)
Total	**106**	**(163)**	**63**	**(174)**	**991**	**(533)**

The increase in derivative financial instrument assets as at 31 December 2010 to U.S.$106 million from U.S.$63 million as at 31 December 2009 was mostly attributable to the increase of fair value of currencies receivable under foreign exchange contracts. The slight decrease in derivative financial instrument liabilities as at 31 December 2010 to U.S.$163 million from U.S.$174 million as at 31 December 2009 was related to the decrease of liabilities under interest rate swaps due to decreasing interest rates during 2010, partially compensated by the increase of fair value of currencies payable under foreign exchange contracts.

The decrease in derivative financial instrument assets and liabilities as at 31 December 2009 to U.S.$63 million and U.S.$174 million, respectively, from U.S.$991 million and U.S.$533 million as at 31 December 2008 was mainly related to a decrease in the fair value of currencies receivable or payable under foreign exchange contracts due to a reduction in market volatility which resulted in a decrease in the volume of derivatives as contracts were closed and new ones not opened.

Legal Proceedings

The Alfa Banking Group faces potential liabilities as a result of certain legal proceedings. See "*Description of the Alfa Banking Group—Litigation*". From time to time and in the normal course of business, other claims against the Alfa Banking Group are received. On the basis of its own estimates and both internal and external professional advice, the Alfa Banking Group's management is of the opinion that no material losses will be incurred in respect of such claims and accordingly no provision has been recorded in ABH Financial Consolidated Financial Statements appearing elsewhere in this Prospectus.

Tax Legislation

Russian tax and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Alfa Banking Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the applicable legislation, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice in this respect has been contradictory.

The Alfa Banking Group conducts some transactions, which might be considered to be as transactions at off-market rates. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices, and thus the quantum of tax liabilities arising therefrom, could potentially be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, the possibility cannot be excluded that such impact may be significant to the financial condition and/or the overall operations of the Alfa Banking Group.

The Alfa Banking Group includes companies incorporated outside of Russia, which contribute a significant proportion of the Alfa Banking Group's operating results. Tax liabilities of the Alfa Banking Group are determined on the assumption that these companies are not subject to Russian income tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Alfa Banking Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or overall operations of the Alfa Banking Group.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Alfa Banking Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Alfa Banking Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices (see "*Risk Factors—Risk Relating to Russia and the CIS—Legal Risks—Russian tax law and practice are not fully developed and are subject to frequent change*"). The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Alfa Banking Group.

The Alfa Banking Group’s management believes that its interpretation of the relevant legislation is appropriate and that the Alfa Banking Group’s tax, currency legislation and customs positions will be sustained. In addition to the aforementioned risks, the Alfa Banking Group estimates that, as at 31 December 2010, it had other possible obligations from exposure to other than remote tax risks of up to approximately U.S.$4 million (same amount as at 31 December 2009).

Operating Lease Commitments

Where the Alfa Banking Group is a lessee, the future minimum lease payments under non cancellable premises and equipment operating leases were as follows:

	As at 31 December		
	2010	**2009**	**2008**
	(U.S.$ millions)		
Not later than 1 year	52	54	72
Later than 1 year and not later than 5 years	71	71	108
Later than 5 years	14	8	8
Total operating lease commitments	**137**	**133**	**188**

Capital Adequacy

Alfa Bank

Alfa Bank is required to comply with a capital adequacy ratio set by the CBR. For the purposes of calculating Alfa Bank's capital adequacy ratio according to the CBR's requirements, Alfa Bank's principal assets are divided into five categories with different risk weightings. Under Russian law, the minimum capital adequacy ratio that the banks are required to maintain is calculated (on an unconsolidated basis) as the ratio of a bank's owned funds (its capital) to the total amount of its risk weighted assets. The minimum capital adequacy ratio required by the CBR is currently 10% for banks whose capital is RUR180 million or more.

Alfa Bank's CBR capital adequacy ratio was 13.8% as at 1 January 2011, 21.1% as at 1 January 2010, 10.4% as at 1 January 2009 and 11.7% as at 1 January 2008.

The Alfa Banking Group

The Alfa Banking Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks, (ii) to safeguard the Alfa Banking Group's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Bank for International Settlements ("**BIS**") Guidelines of at least 8%. The Alfa Banking Group's capital adequacy ratio is monitored monthly in relation to the Alfa Banking Group's other objectives.

The following table sets forth the composition of the Alfa Banking Group's capital and the Alfa Banking Group's capital adequacy ratios in accordance with the BIS Guidelines as at 31 December 2010, 2009 and 2008.

	As at 31 December		
	2010	**2009**	**2008**
	(U.S.$ millions)		
Tier 1 capital			
Paid up share capital	1,265	1,265	945
Retained earnings, cumulative translation reserve and non-controlling interest (less goodwill)	1,665	1,282	1,134
Total tier 1 capital	**2,930**	**2,547**	**2,079**
Total tier 2 capital[(1)]	**1,286**	**1,361**	**252**
Total capital	**4,216**	**3,908**	**2,331**
Risk weighted assets	23,186	19,375	25,333
Capital adequacy ratios[(2)]			
Tier 1 capital adequacy ratio (%)	12.6%	13.1%	8.2%
Total capital adequacy ratio (%)	**18.2%**	**20.2%**	**9.2%**

(1) Includes adjusted amounts of subordinated debt, revaluation reserve for premises and equipment and fair value reserve for investments available for sale.
(2) Net available capital as a percentage of risk weighted assets.

The management of the Alfa Banking Group believes that both the Alfa Banking Group and Alfa Bank were in compliance with all externally imposed capital requirements as at 31 December 2010, 2009 and 2008.

Recent Developments

Economic Environment

This Prospectus contains the 2010 ABH Financial Consolidated Financial Statements but does not contain any consolidated financial information subsequent to 31 December 2010. As a result, the financial information contained in this Prospectus does not reflect changes in the economic environment in which the Alfa Banking Group's businesses operated since 31 December 2010. Based on the Alfa Banking Group's internal unaudited estimates, since 31 December 2010, the Alfa Banking Group's total assets remained almost unchanged, total gross loans and advances to customers increased, total provisions remained almost unchanged, total customer accounts increased, while total equity also increased, due to organic income generation.

OJSC Bank Severnaya Kazna

In 2008, Alfa Bank acquired an 85.02% stake in Severnaya Kazna bank, a major financial institution in the Urals region, represented in Yekaterinburg, Chelyabinsk, Perm, Tyumen and other regional cities, which had 400,000 retail customers and 8,000 corporate customers at the time of acquisition. Its principal activities included lending to retail and SME clients. On 3 June 2010, the Alfa Banking Group purchased an additional 10.003% of Severnaya Kazna's shares, which increased its equity stake to 95.031%, and in September 2010 the Alfa Banking Group completed the process of squeezing out the remaining shareholders and from that point onwards, has held 100% of Severnaya Kazna's shares. On 22 March 2011, the shareholders of Alfa Bank approved the merger of Severnaya Kazna into Alfa Bank. Subject to regulatory approvals, Alfa Bank plans to complete the merger with Severnaya Kazna by June 2011.

Issuance of Rouble denominated bonds

In February 2011, as part of its overall plan to borrow RUR20,000 million by 15 December 2011, the Alfa Banking Group issued domestic Rouble-denominated bonds in the aggregate principal amount of RUR5,000 million (U.S.$172 million) bearing an interest rate of 8.25% and maturing in 2016. According to the terms of these bonds, the bondholders have a right to put the bonds to Alfa Bank on the third anniversary of issue date at a price equal to 100% of the principal amount plus accrued but unpaid interest.

Redomiciliation of ABH Financial from the British Virgin Islands to Cyprus

ABH Financial (originally named Alfa Bank Holdings Limited) was incorporated as a private company with limited liability under the laws of the British Virgin Islands on 3 November 1995, and is the parent company of the Alfa Banking Group. In order to avail itself of the benefits perceived by the management to arise from a domicile in an EU regulated jurisdiction, effective 4 April 2011, ABH Financial changed its domicile from the British Virgin Islands to the Republic of Cyprus by transferring its registered office to Cyprus and continuing as a private limited liability company registered in Cyprus.

Transfer of Alfa MTN Invest Limited, Alfa MTN Issuance Limited, Alfa MTN Markets Limited and Alfa Debt Market Limited from ABH Financial to Countryisle Assets Limited

On 17 February 2011, in order to optimise the Alfa Banking Group's holding structure, ABH Financial transferred its shareholdings in Alfa MTN Invest Limited, Alfa MTN Issuance Limited, Alfa MTN Markets Limited and Alfa Debt Market Limited to Countryisle Assets Limited, which is 100% owned by ABH Financial.

Acquisition of additional 20% of Alfa Capital Holdings (Cyprus) Limited

In March 2011, Alfa Bank acquired an additional 20% of Alfa Capital Holdings (Cyprus) Limited. As of the date of this Prospectus, Alfa Bank directly owns 49.9% of Alfa Capital Holdings (Cyprus) Limited and ABH Financial directly owns 30.3% of Alfa Capital Holdings (Cyprus) Limited. ABH Financial also holds rights to the economic benefits with respect to the remaining 19.8% of Alfa Capital Holdings (Cyprus) Limited. Subject to regulatory

approvals Alfa Bank plans to purchase the additional 19.8% of Alfa Capital Holdings (Cyprus) Limited by no later than 20 July 2011.

Disqualification of Mr. Kvesyuk

In September 2010, the Krasnodar Region branch of the Department of Consumer Protection of Russia (*Rospotrebnadzor*) (the "**Department**") found Alfa Bank in violation of the consumer protection laws and issued a directive ordering Alfa Bank to fix the violation (the "**First Directive**"). The nature of the alleged violation of consumers' rights was the inclusion by Alfa Bank of a forum selection clause in its consumer loan agreement form, which had the effect of consumers consenting to the adjudication of potential disputes by a court in the City of Moscow. Alfa Bank complied with the First Directive by amending its forum selection clause. However, the Department considered these amendments to be insufficient to comply with the First Directive. As a result, in November 2010 the Department issued the second directive (the "**Second Directive**") urging Alfa Bank to comply with the First Directive. Subsequently, the Department filed a complaint against Alfa Bank with a district court in Krasnodar for failure to comply with the Second Directive .

In January 2011, while the hearing with respect to the Second Directive was pending, the Department issued another directive (the "**Third Directive**"), which ordered Alfa Bank and its Chairman of the Executive Board, Mr Khvesyuk, to comply with the prior directives. Subsequently, the Department commenced an inspection of Alfa Bank's Krasnodar Region branch. Based on the results of the inspection, the Department established that Alfa Bank was not in compliance with the prior directives.

In February 2011, the judge in Krasnodar found the Second Directive to be illegal and dismissed the case against Alfa Bank.

In March 2011, based on the results of the January inspection and the failure of Alfa Bank and Mr. Khvesyuk to comply with the Third Directive, the Department filed a claim with a district court in Krasnodar seeking to disqualify Mr. Khvesyuk from his current position as the Chairman of the Executive Board for a repeated failure to comply with the orders of a governmental agency. Alfa Bank filed a motion to remove the case against Mr. Khvesyuk from Krasnodar to a court in the Moscow Region where Mr. Khvesyuk resides, which motion was granted. The new hearing date has not been scheduled yet.

Alfa Bank intends to defend Mr. Khvesyuk vigorously and believes that the case should be dismissed on procedural grounds similar to those in the case against Alfa Bank in January 2011. Nevertheless, should the court disqualify Mr. Khvesyuk from his position as the Chairman of the Executive Board, this could affect Alfa Bank's operations, although as at the date of this Prospectus it is not possible to accurately quantify what effect, if any, this could have on the financial position or profitability of Alfa Bank, ABH Financial or the Alfa Banking Group.

Declaration of dividends by ATB

On 1 April 2011, ATB declared a dividend for the year ended 31 December 2010 in the amount of €8 million to Alfa Bank, its sole shareholder.

Declaration of dividends by Alfa Bank Kazakhstan

On 30 March 2011, Alfa Bank Kazakhstan declared a dividend for the year ended 31 December 2010 in the amount of U.S.$2.8 million, which is to be transferred by Alfa Bank to ABH Holdings S.A. pursuant to the call option agreement.

Description of the Alfa Banking Group

Overview

The Alfa Banking Group is a leading Russian banking group offering a wide range of banking products and services. The Alfa Banking Group has three main segments:

- *Corporate and investment banking*, which provides a broad range of commercial and investment banking services and products, including corporate lending, corporate deposit services, trade finance operations, structured corporate lending, securities trading, debt and equity capital markets, derivatives, structured financing, foreign exchange trading, corporate finance and merger and acquisition advisory services to large corporations and SMEs, and other financial institutions;
- *Retail banking*, which provides financial services, including deposit services, credit and debit card services, lending (including consumer loans, personal instalment loans, credit card lending, car loans and mortgages), money transfers and private banking services to individuals; and
- *Treasury operations*, which manage the Alfa Banking Group's funding activities and investment in liquid assets, as well as short term money market and promissory note operations.

As at 31 December 2010, the Alfa Banking Group had 364 offices throughout the Russian Federation and abroad, including subsidiaries and representative offices (along with their associated branches) in the Russian regions, Netherlands, Cyprus, the United States and the United Kingdom.

According to RosBusinessConsulting, as at 1 January 2011, Alfa Bank was the Russian Federation's sixth largest bank (VTB and VTB-24 being considered as one bank) in terms of assets and the Russian Federation's largest privately owned bank in terms of assets, customer accounts and equity[15]. According to Bankir.ru survey, as of March 2011, Alfa Bank was the sixth largest bank (VTB and VTB-24 being considered as one bank) in the Russian Federation in terms of equity.[16]

Alfa Bank is also one of the largest privately owned banks in the Russian retail sector, with a 5.5% market share of retail demand deposits by value as at 1 January 2011 according to calculations by Alfa Bank based on published CBR statistics[17].

As at 31 December 2010, the Alfa Banking Group had total assets of U.S.$28,478 million, total equity of U.S.$3,079 million, net loans and advances to customers of U.S.$16,795 million and customer accounts totalling U.S.$16,812 million as compared to total assets of U.S.$21,646 million, total equity of U.S.$2,698 million, net loans and advances to customers of U.S.$13,449 million and customer accounts totalling U.S.$13,686 million, respectively as at 31 December 2009. For further detail on the Alfa Banking Group's results of operations and financial condition, see "*Operating and Financial Review of the Alfa Banking Group*".

Credit Ratings

Alfa Bank received from Ba1/Not Prime local currency and foreign currency deposit ratings and Ba2 foreign currency subordinated debt rating from Moody's. On 12 November 2010, Moody's revised its outlook on Alfa Bank to stable, which, according to Moody's, reflects (i) the stable trends in the financial fundamentals of the bank; (ii) signs of improvement in asset quality; and (iii) adequate provisions and capital buffers to offset expected credit losses under Moody's base case stress-test.

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[15] Source: RosBusinessConsulting

[16] Source: www.bankir.ru

[17] Source: Central Bank of Russia

On 11 March 2011, Standard & Poor's revised Alfa Bank's long-term issuer credit rating from "B+" to "BB-". Alfa Bank's short term issuer credit rating remained "B". The outlook was revised from positive to stable. According to Standard & Poor's, the upgrade in credit rating reflects an improvement in the quality of Alfa Bank's loans, as well as its good earnings prospects, consistent strategy and established franchise.

On 27 May 2010, Fitch upgraded Alfa Bank's long term foreign currency default rating from BB- to BB and affirmed a B short term foreign currency default rating and Russian national scale rating of AA-(rus). All ratings carried a stable outlook. Fitch awarded the upgrade of the long term foreign currency default rating on the basis of its view that Alfa Bank was able to overcome problems with asset quality, increase capitalisation and maintain a sufficient liquidity buffer during the crisis as well as its ability to absorb potential losses in the future.

For a discussion of the impact of the global financial crisis generally and on the Alfa Banking Group and the risks associated with the global financial crisis, see "*Risk Factors—Risks Relating to the Alfa Banking Group's Business and Industry*" and "*Operating and Financial Review of the Alfa Banking Group*".

Alfa Consortium

The Alfa Banking Group is part of a wider group of companies referred to herein as the Alfa Consortium. The Alfa Consortium operates principally in the banking, insurance, telecommunications and oil and gas sectors, as well as in the investment and retail trade business. The ultimate parent company of the Alfa Banking Group is ABH Holdings S.A., a corporation incorporated under the laws of the Grand-Duchy of Luxembourg, which owns 100% of the shares in ABH Russia Limited, a company organised under the laws of the Republic of Cyprus, which owns 100% of the shares in ABH Financial, the immediate parent company of the Alfa Banking Group. Since its incorporation, ABH Holdings S.A. has been directly owned by six individuals in the following proportions:

Name	Percentage
Mikhail Fridman	36.47%
German Khan	23.27%
Alexei Kuzmichev	18.12%
Peter Aven	13.76%
Alex Knaster	4.30%
Andrey Kosogov	4.08%
	100.00%

The Alfa Banking Group traditionally has conducted and continues to conduct significant business with related parties. As at 31 December 2010, the Alfa Banking Group's loans and advances to customers included balances outstanding from related parties representing 7.9% and 5.0% of gross loans to customers and total assets, respectively, compared to 5.8% and 4.0% as at 31 December 2009 and 4.0% and 2.8% as at 31 December 2008. As at 31 December 2010, the Alfa Banking Group's credit related commitments to related parties amounted to 7.6% of total credit related commitments, compared to 4.0% as at 31 December 2009 and 3.1% as at 31 December 2008.

The total amount maintained in customer accounts with the Alfa Banking Group by related parties as at 31 December 2010 was U.S.$1,927 million, which was 11.5% of the total customer accounts of the Alfa Banking Group, compared to U.S.$1,765 million and 12.9%, respectively, as at 31 December 2009 and U.S.$1,456 million and 11.6%, respectively, as at 31 December 2008.

For further information regarding the exposure of the Alfa Banking Group to related parties, see "*Related Party Transactions*".

History and Structure of the Alfa Banking Group

Alfa Finance Holdings S.A., a holding company, was incorporated in Luxembourg in May 1999 principally to function as a holding company of the main financial businesses of the Alfa Consortium (the "**Alfa Finance Group**"). Commencing in December 1999, Alfa Finance Holdings S.A. effected a multi-stage reorganisation (the "**Reorganisation**") in order to:

- increase the transparency of the Alfa Finance Group by having a structure with a single parent company; and
- segregate the Alfa Consortium's banking and non-banking assets.

After the Reorganisation, Alfa Finance Holdings S.A. was the sole shareholder of four wholly-owned sub-holding companies, each corresponding to the four main business segments in which the Alfa Consortium operates: ABH Financial (corporate and investment banking), Alfa Telecom Limited (telecommunications), Alfa Petroleum Holdings Limited (oil trading and production) and Alfa Capital Stock Trading Limited (insurance).

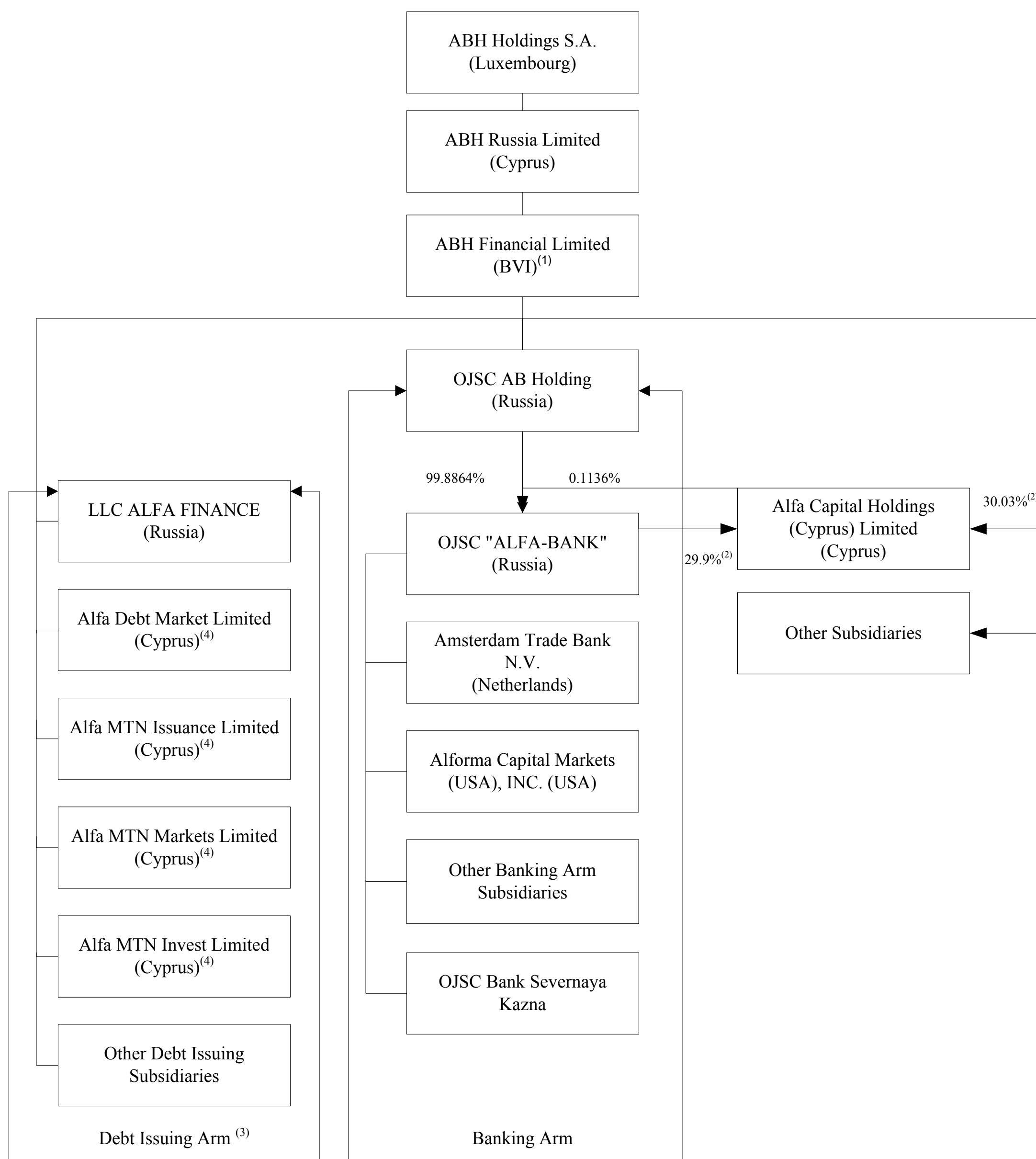
In 2004, the Alfa Consortium effected a restructuring of the Alfa Banking Group's ownership structure to further increase its transparency to allow it to comply with CBR requirements applicable to banks with retail operations and ultimately enable it to participate in the Russian Deposit Insurance System. The restructuring was carried out by transferring the ownership of ABH Financial from Alfa Finance Holdings S.A. to the then newly formed ABH Holdings Corp. through the following steps:

- In early 2004, Alfa Bank reformed its shareholding structure. The reform resulted in the merger of Alfa Bank's 11 shareholders (holding in aggregate 99.74% of Alfa Bank's charter capital) into one company, OJSC AB Holding, which became a wholly-owned subsidiary of ABH Financial.
- On 5 March 2004, ABH Holdings Corp. was then incorporated in the British Virgin Islands.
- In June 2004, the shares of ABH Financial were transferred to ABH Holdings Corp. from Alfa Finance Holdings S.A.
- In September 2009, the shares of ABH Financial were transferred to ABH Russia Limited (Cyprus) which is wholly-owned by ABH Holdings S.A.

With effect from 31 December 2009, ABH Holdings Corp. transferred its domicile from the British Virgin Islands to Luxembourg, and changed its name to ABH Holdings S.A. The registered office of ABH Holdings S.A. is 3, boulevard du Prince Henri, L-1724 Luxembourg, Grand Duchy of Luxembourg.

As a result of the Reorganisation, ABH Financial (which was incorporated as a private company with limited liability under the laws of the British Virgin Islands on 3 November 1995) became the parent company of the Alfa Banking Group. In order to avail itself of the benefits perceived by the management to arise from a domicile in an EU regulated jurisdiction, effective 4 April 2011, ABH Financial changed its domicile from the British Virgin Islands to the Republic of Cyprus by transferring its registered office to Cyprus and continuing as a private limited liability company registered in Cyprus. For a further description of ABH Financial see "*ABH Financial*".

As at 31 December 2010, the Alfa Banking Group had the following principal corporate structure (unless otherwise stated, ownership is 100%):



(1) Effective 4 April 2011, ABH Financial changed its domicile from the British Virgin Islands to the Republic of Cyprus by transferring its registered office to Cyprus and continuing as a private limited liability company registered in Cyprus. For a further description of ABH Financial see "*ABH Financial*".

(2) In March 2011, Alfa Bank acquired additional 20% of Alfa Capital Holdings (Cyprus) Limited. As of the date of this Prospectus, Alfa Bank directly owns 49.9% of Alfa Capital Holdings (Cyprus) Limited and ABH Financial directly owns 30.3% of Alfa Capital Holdings (Cyprus) Limited. ABH Financial also holds rights to the economic benefits with respect to the remaining 19.8% of Alfa Capital Holdings (Cyprus) Limited. Subject to regulatory approvals, Alfa Bank plans to purchase the remaining 19.8% of Alfa Capital Holdings (Cyprus) Limited no later than 20 July 2011.

(3) The Debt Issuing Arm consists of special purpose vehicles that are used to raise funds internationally. These entities do not have material assets apart from the contractual rights associated with their respective debt obligations.

(4) On 17 February 2011, in order to optimise the Alfa Banking Group's holding structure, ABH Financial transferred its shareholdings in Alfa MTN Invest Limited, Alfa MTN Issuance Limited, Alfa MTN Markets Limited and Alfa Debt Market Limited to Countryisle Assets Limited, which is 100% owned by ABH Financial.

Alfa Bank

Alfa Bank was established on 20 December 1990 as LLP CIB Alfa Bank, a partnership with limited liability, and obtained its general banking licence from the CBR in January 1991. Alfa Bank was converted from a limited liability partnership (*Tovarischestvo s Ogranichennoi Otvetstvennost'u*) to a limited liability company (*Obschestvo s Ogranichennoi Otvetsvennost'u*) in line with Russian legislation on the status of such companies in 1996. In January 1998, LLC CIB Alfa Bank was reorganised as an open joint-stock company to increase management transparency and shareholder flexibility. Alfa Bank is registered with the CBR under No. 1326 and with the Moscow Registration Chamber under No. 001.937 and re-registered in the unified state register for legal entities under main state register number 1027700067328. Alfa Bank's registered office is at 27 Kalanchevskaya Str., Moscow 107078, the Russian Federation, and its telephone number is +7 495 620 9191.

In June 2008, the Alfa Banking Group received U.S.$250 million from its shareholders as a capital contribution. In June 2009, the Alfa Banking Group received an additional U.S.$320 million from its shareholders as a capital contribution to provide the Alfa Banking Group additional capital in response to the global financial crisis.

The Alfa Banking Group operates in most sectors of the Russian financial markets and is regulated and supervised by the CBR. Alfa Bank is registered in the Russian Federation to carry out banking and foreign exchange activities, has operated under a general banking licence and a licence to deal in precious metals issued by the CBR since January 1991. In 2000, Alfa Bank received licences for depository, broker-dealer and asset management activities and in 2002 and 2009 received licences to act as a special depositary for various funds and to deal in futures and options. Alfa Bank also holds licences for provision of encryption services, distribution and servicing of encryption equipment and working with state secret materials. The Alfa Banking Group has established a network of branches across Moscow, as well as in most major cities in the Russian Federation.

The Alfa Banking Group opened a wholly-owned subsidiary in Almaty, Kazakhstan in December 1994, the first Russian bank to do so. On 29 June 2009, the Alfa Banking Group signed a call option agreement with ABH Holdings Corp. (currently known as ABH Holdings S.A.) that effectively transferred to ABH Holdings Corp. all potential voting rights and economic benefits in its Kazakhstan subsidiary. See "*—Major Subsidiaries—JSB SB Alfa-Bank Kazakhstan*".

In March 2001, the Alfa Banking Group purchased a 100% share in ATB to become one of the first private Russian corporate banks to have an affiliate bank with a full banking licence in the European Union. See "*—Major Subsidiaries—ATB*". Alfa Bank is currently considering disposing of ATB to companies within the Alfa Consortium. However, the price mechanism and timing of the transfer are not determined yet. Subject to covenant restrictions and regulatory approvals the transfer of ATB may occur in the form of an extraordinary dividend or on other terms that are not arm's length.

The Alfa Banking Group previously operated a Ukrainian subsidiary, Alfa-Bank Ukraine, together with its local branches. In August 2006, the Alfa Banking Group disposed of a 51.0% interest in Alfa-Bank Ukraine to ABH Ukraine Limited, a company controlled by the shareholders of the Alfa Consortium. The Alfa Banking Group's remaining holdings in Alfa-Bank Ukraine were further diluted to 16.2% after Alfa-Bank Ukraine closed an offering of capital shares on 3 November 2006, and by 31 January 2007, the holding had been reduced to 0%. In March 2010, the Alfa Banking Group acquired for cash consideration of U.S.$93 million newly issued shares, comprising 19.8986% of the outstanding shares of Alfa Bank Ukraine, a subsidiary of ABH Ukraine Group, and simultaneously entered into a sale and purchase agreement with ABH Ukraine Limited, parent of ABH Ukraine Group, whereby (i) the Alfa Banking Group agreed to transfer immediately to ABH Ukraine Limited all voting rights, rights for representation in governance bodies of Alfa Bank Ukraine and rights for future distributions arising from the shares, (ii) the Alfa Banking Group agreed not to transfer the shares to any other party other than ABH Ukraine Limited and (iii) the Alfa Banking Group and ABH Ukraine agreed to execute transfer of the shares from the Alfa Banking Group to ABH Ukraine Limited at any date indicated by the Alfa Banking Group or by ABH Ukraine Limited but in any case before 31 December 2014 and in exchange for payment by ABH Ukraine of U.S.$93 million. The performance of ABH Ukraine under the above contract is guaranteed by ABH Holdings S.A.

The management of the Alfa Banking Group concluded that as a result of the above transactions the Alfa Banking Group in substance purchased and immediately sold the shares. The balance receivable from the ABH Ukraine Limited in the amount of U.S.$93 million was recorded within other financial assets and carries no interest.

The Alfa Banking Group maintains an investment banking presence in Ukraine and has previously extended loans to certain of Alfa-Bank Ukraine's clients, which were too large for Alfa-Bank Ukraine to undertake independently. Subsequently, in July 2010, the Alfa Banking Group decided to transfer loans made to Alfa-Bank Ukraine's clients to Alfa-Bank Ukraine and is currently not extending loans directly to Alfa-Bank Ukraine's clients. See "*Related Party Transactions*" for further discussion of the Alfa Banking Group's dealings with Alfa-Bank Ukraine. In July 2010 ABH Ukraine Group repaid approximately U.S.$140 million of its indebtedness to the Alfa Banking Group after the Alfa Banking Group purchased from a subsidiary of ABH Ukraine Group for U.S.$248 million certain subordinated loans outstanding from Alfa-Bank Ukraine. As at 31 December 2010, the Alfa Banking Group's total on-balance sheet exposure (including trading securities of U.S.$22 million, investment securities available for sale of U.S.$4 million, correspondent accounts of U.S.$2 million, term placements of U.S.$281 million and other receivables of U.S.$93 million) to ABH Ukraine Group amounted to U.S.$402 million and credit related commitments to ABH Ukraine Group amounted to U.S.$40 million.

In the second half of 2006, while in the process of liquidating its Bashkortostan subsidiary, the Alfa Banking Group received a bid for it. On 4 May 2007, the Alfa Banking Group sold a 100% interest in Alfa Bank Bashkortostan and recorded a small gain from disposal. The Alfa Banking Group also liquidated its Kazan subsidiary (in the Republic of Tatarstan) in November 2007. The Alfa Banking Group intends to continue operations in these areas through representative offices and branches, which it believes to be more effective, less burdensome from an administrative point of view, and less expensive than continuing to maintain subsidiary companies.

In 2008, the Alfa Banking Group acquired a controlling interest in Severnaya Kazna bank, a leading financial services provider in the Urals region of the Russian Federation. Total assets of Severnaya Kazna as at 31 December 2010 constituted less than 1% of the consolidated assets of the Alfa Banking Group. On 3 June 2010, the Alfa Banking Group purchased an additional 10.003% stake of Severnaya Kazna's shares, which increased its total stake to 95.031%. On 19 July 2010, Alfa Bank presented OJSC Severnaya Kazna with a squeeze-out demand according to Joint Stock Companies Law dated 26 December 1995 and on 7 September 2010, the Alfa Banking Group completed the squeeze out and, from that point onwards, has held 100% of Severnaya Kazna's shares. On 22 March 2011, the shareholders of Alfa Bank approved the merger of Severnaya Kazna into Alfa Bank. Subject to regulatory approvals, Alfa Bank plans to complete the merger with Severnaya Kazna by June 2011. See "*—Major Subsidiaries—OJSC Bank Severnaya Kazna*".

Alfa Bank has been a member of SWIFT since 1994 and a member of Euroclear since 1996. In addition, Alfa Bank is a member of the MICEX, the National Association of Security Markets Participants and the RTS, Russia's primary electronic stock trading system. Alfa Bank also is a member shareholder of the InterBank Credit Union, a clearing institution connected to the Depositary Clearing Company.

The Alfa Banking Group's Strengths

The Alfa Banking Group has a number of key strengths, which include the following:

Strong Corporate and Investment Banking and Established Relationships with Leading Russian Companies

A key strength of the Alfa Banking Group is its corporate and investment banking segment. The Alfa Banking Group has a history of cooperation and good relationships with leading Russian companies operating in various sectors of the Russian economy. The corporate and investment banking segment is the Alfa Banking Group's most significant business segment and the segment from which it derives most of its revenues. Corporate and investment banking generated total external revenues of U.S.$1,710 million for the year ended 31 December 2010, or 63.9% of the Alfa Banking Group's total external revenues for the year, and the external revenues of the corporate and investment banking segment for the year ended 31 December 2009 amounted to U.S.$1,795 million,

or 70% of the Alfa Banking Group's total external revenues for the year. Its collaboration with leading Russian companies is based upon a wide range of products and its in-depth knowledge of its customers' businesses. This collaboration has resulted in the Alfa Banking Group developing tailor-made solutions for clients that Alfa Bank believes provide the Alfa Banking Group with a competitive advantage as compared to less flexible banks. Alfa Bank also believes that the knowledge, experience and credentials acquired by the Alfa Banking Group, through its servicing of specialised sectors, such as the construction industry and the Russian military, gives the Alfa Banking Group an advantage over banks trying to enter such sectors. As at 31 December 2010, the Alfa Banking Group had about 40,000 corporate customers.

Strong Franchise and Brand Recognition

The Alfa Banking Group is one of the leading Russian banking groups in terms of corporate and interbank lending, retail deposits, fixed income and equity trading, foreign exchange, corporate finance advisory services, leasing and trade finance services. The Alfa Banking Group's breadth of operations provides it with a diversified revenue base within Russia. The Alfa Banking Group has also developed one of the most recognised brands in the Russian banking industry as indicated by Superbrands International awarding Alfa Bank a Superbrand Award for the third year in succession in 2008, naming it market leader in both consumer and inter-corporate business categories[18]. Global Finance magazine recognised Alfa Bank as "Best Domestic Bank 2008" for Russia, in addition to being "Best Trade Finance Bank in Russia" for 2007 and 2008, "Best Equity Research Bank" for 2008 and "Best Internet Bank in Russia" for 2008[19]. Euromoney magazine recognised Alfa Bank as the "Best Bank in Russia" in 2007, 2008 and 2009. It also awarded it "Best Local Bank Trading the Rouble" and "Best Forex Bank in Russia" in 2006[20]. NAUFOR recognized Alfa Bank as "Best Service Company for Individual Investors" in 2009[21]. Standard & Poor's recognised Alfa Bank as one of the most transparent banks in its 2007 research on the "Transparency and Disclosure by Russian Banks."[22] In 2007, The Retail Finance magazine recognized Alfa Bank as the best bank in Russia by quality of retail client services and awarded the Creative Idea of the Year Award for the co-branded VISA card for women with Cosmopolitan magazine[23]. In 2007, KPMG and Senteo ranked Alfa Bank as the best bank in retail banking in their survey "Customer Impressions of Retail Banking in Russia." In 2008 and 2009, Alfa Bank led the Russian Overall Customer Experience Index rating according to the survey conducted jointly by Senteo and PricewaterhouseCoopers[24]. Alfa Bank received the "Brand of the Year / EFFIE 2008" award for "My Alfa" banking card[25]. It was also rated the Best Customer Service Bank in Moscow by NEXTEP Group[26]. In 2009, the Alfa Banking Group received an award for achievements in private banking & wealth management by SPEAR's UK magazine[27]. In 2010, Alfa Bank was awarded "Best Company providing services to individuals on the Russian securities market" by The Securities Market Elite 2009[28].

Strong Shareholder Commitment to Support the Bank

The Alfa Banking Group is one of the main strategic assets of the Alfa Consortium, which is one of Russia's largest privately-owned financial-industrial conglomerates. The Alfa Banking Group's shareholders have historically provided financial support to the Alfa Banking Group. During the July 2004 Russian liquidity crisis that resulted in large outflows of deposits from Alfa Bank, the Alfa Banking Group's shareholders deposited

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[18] Source: Superbrands Ltd.

[19] Source: Global Finance Magazine

[20] Source: Euromoney Magazine

[21] Source: Russian National Association of Securities Market Participants ("NAUFOR")

[22] Source: Standard & Poor's

[23] Source: Retail Finance Magazine

[24] Source: "Customer Experience Index-2009" by PricewaterhouseCoopers and Senteo Inc.

[25] Source: The Brand of the Year/EFFIE (http://brandgoda.ru/en/)

[26] Source: the NEXTEP Group

[27] Source: Spear's

[28] Source: NAUFOR

significant amounts of personal funds with Alfa Bank and its subsidiaries. In June 2009, the shareholders provided the Alfa Banking Group a capital injection of U.S.$320 million in response to the global financial crisis. Though under no continuing obligation, and while the shareholders may in time withdraw excess capital, the Alfa Banking Group's shareholders have publicly expressed their commitment to provide support to the Alfa Banking Group in the future if needed.

Strong Management Team and Advanced Systems

The Alfa Banking Group believes that its success is in large measure due to its strong management team, which combines Russian and Western expertise. Johann Jonach, Chairman of the Board of Directors of Alfa Bank, was previously with Raiffeisenbank, where he played a significant role in its development in Eastern Europe. Most of the Alfa Banking Group's other senior managers have previously held senior positions at leading international financial institutions. The Alfa Banking Group's management team has also been instrumental in supporting the Alfa Banking Group's adoption of best practices from more developed banking markets including the development and implementation of a modern information management system and advanced risk management procedures.

International Experience and Reputation

From its inception, the Alfa Banking Group has been active in international markets and has strong relationships with many international financial institutions. Alfa Bank believes that it has an international reputation as a stable and reliable bank. In the aftermath of Russia's 1998 financial crisis, unlike many other Russian banks, it settled all of its obligations on outstanding forward contracts and fully repaid all of its other obligations as they came due.

The Alfa Banking Group's Strategy

The Alfa Banking Group's overall strategic objective is to further develop its various banking operations and to enhance its profitability. The Alfa Banking Group is primarily focused on improving asset quality, effectively restructuring impaired loans, achieving organic growth in its loans and advances to customers and increasing profitability while diversifying income sources and increasing commission income. To this end, the Alfa Banking Group intends to further integrate its business units in order to promote efficiency and higher revenues, and continue to expand its loans and advances to customers, to focus on high quality borrowers and to closely monitor performance of the existing loans. In addition, the Alfa Banking Group believes the global financial crisis provided it with an opportunity to strengthen its market position in its current geographic regions and customer segments as a number of its foreign competitors temporarily reduced or suspended parts of their operations in Russia. The Alfa Banking Group is also committed to introducing new products for its corporate and retail clients and developing its client relationship system.

To achieve its strategic objective, the Alfa Banking Group seeks to:

Strengthen and Diversify its Corporate Banking Services

While maintaining its position as a market leader for corporate lending, the Alfa Banking Group plans to explore ways to continue developing its lending business, with its current reliance on interest income, by offering a wider range of services to its extensive corporate client base. Such additional services such as cash management services and payroll schemes, generate additional non-interest income for the corporate banking segment while maintaining margins in the lending business and helping to develop further the Alfa Banking Group's corporate client base. The Alfa Banking Group also focuses on exploiting synergies between its corporate banking, investment banking and retail banking businesses, with the aim of continuing to increase profit through cross-selling.

The Alfa Banking Group aims to diversify income streams from its corporate business by continuing to develop its settlement services business, and continuing to promote new high-margin products in the fields of structured lending, trade financing and leasing. In addition, the Alfa Banking Group has begun to focus on both the top tier of medium-sized companies (which covers companies with revenues of between U.S.$200 million and U.S.$500 million), which the Alfa Banking Group believes represents a customer group where credit risk and potential

returns are well balanced and where opportunities for market expansion exist. Alfa Banking Group believes companies in certain sectors provide particularly attractive opportunities for higher margins, including the oil and gas, metallurgical, food production and telecommunications sectors. The Alfa Banking Group intends to strengthen the product line it offers to these sectors of the corporate market, including through the provision of investment banking services, sophisticated credit products, leasing, factoring and settlement instruments. Another area for strategic focus is the reduction of costs throughout the Alfa Banking Group's corporate business, for instance by consolidating IT infrastructure in certain regions of the Russian Federation into technologically advanced operating offices. This consolidation is expected to enable the Alfa Banking Group to provide its regional clients with a range of products and services that would not otherwise be available to them.

Focus on Developing its Retail Banking Business

The Alfa Banking Group's general strategic objective in relation to its retail business is to increase the profitability of the segment by focusing on increasing margins, reducing costs and continuing the strengthening and optimisation of its infrastructure. The Alfa Banking Group intends to implement these strategies by continuing to modernise its procedures and systems in order to reduce costs and increase efficiencies; by continuing to expand and upgrade its regional presence; and by developing new products and bundling existing products in order to increase fee income.

The Alfa Banking Group considers retail banking to have greater profit potential than corporate banking due to increasing demand for banking services by consumers in the Russian Federation and higher margins derived from lending to individuals as compared to corporate customers. The Alfa Banking Group considers expansion in the scope and improvement in the quality of its retail banking services to be a priority, especially in light of increasing competition in the retail banking market and rising consumer demand for banking products.

Expansion of Investment Banking Operations

The Alfa Banking Group plans to develop further its investment banking business both in the Russian Federation and internationally. The Alfa Banking Group's investment banking team aims to develop and leverage existing relationships with the Alfa Banking Group's corporate borrowers. The team focuses on providing value-added service to such clients. At the same time, the Alfa Banking Group's investment banking business continues to focus on fee income and higher margin generating products. The merger of the corporate and investment banking segments allows Alfa Banking Group to more easily market its investment banking services to its clients and utilise its sector expertise and knowledge of the financial positions of Russian issuers allow it to participate in larger deals with foreign investment banks. The Alfa Banking Group plans to expand its role as an arranger in the local and international debt capital markets. It also intends to expand its equity and fixed income research unit by recruiting new professionals who enjoy their clients' trust, and to increase its securities trading operations (including through Alfa-Direct, its internet trading system). See "*Corporate and Investment Banking—Equities*". At the same time, the Alfa Banking Group intends to improve the balance of income sources within its investment banking operations, moving away from its historical reliance on its equities business to a more diversified business model.

Attracting and Retaining High-Calibre Staff

The Alfa Banking Group's employment strategy is to attract and retain high-calibre employees at all levels, in particular those with either international professional experience or internationally-recognised higher level qualifications. The Alfa Banking Group's training and development function is designed to develop employees' technical management and sales skills. Particular focus is placed on developing managerial skills for junior and middle management, and the Alfa Banking Group has focused significant resources on the computer and internet-based skills of its employees over the course of the past few years.

Banking Services and Activities

The Alfa Banking Group provides segmental information in its consolidated financial statements for its three business segments: corporate and investment banking, retail banking and treasury. For the year ended 31 December 2010, corporate and investment banking generated external revenues of U.S.$1,710 million, retail banking generated external revenues of U.S.$824 million, and treasury generated external revenues of U.S.$141 million, or 63.9%, 30.8% and 5.3% of the Alfa Banking Group's total external revenues, respectively.

For the year ended 31 December 2009, the external revenues of the corporate and investment banking segment amounted to U.S.$1,795 million, retail banking generated of U.S.$679 million, and treasury generated external revenues of U.S.$92 million, or 70.0%, 26.5% and 3.5% of the Alfa Banking Group's total external revenues, respectively.

See "*Operating and Financial Review of the Alfa Banking Group—Analysis by Segment*" for a further discussion of the revenues and segment results generated by the Alfa Banking Group's respective business segments.

Corporate and Investment Banking

Following the merger of the corporate business and investment banking business in 2009, the combined corporate and investment banking segment includes lending; bank account, deposit and settlement services; trade finance; structured finance; corporate finance; equities; fixed income and foreign exchange department.

The Alfa Banking Group's corporate and investment banking operations generated external revenues of U.S.$1,710 million for the year ended 31 December 2010, as compared to U.S.$1,795 million for the year ended 31 December 2009, as compared to U.S.$2,162 million for the year ended 31 December 2008.

Corporate Customer Base and Segmentation

The Alfa Banking Group provides corporate banking products and services to a variety of corporate and governmental entities. As at 31 December 2010, the Alfa Banking Group had around 40,000 corporate customers. The Alfa Banking Group has traditionally provided corporate banking services to companies within the oil, gas and refinery, mining and metals, manufacturing, chemical and power industries. The Alfa Banking Group also provides corporate banking services to Russian retail chains, food production companies and companies in other growing industry sectors such as investment companies, telecommunications and the media. See "*Selected Statistical and Other Information—Loans and advances to customers—Economic Sector Concentration*" and "*Selected Statistical and Other Information—Loans and advances to customers—Customer Concentration*".

Lending

The Alfa Banking Group offers a wide range of credit products to corporate clients, including loans, credit lines, overdrafts and bank guarantees. The Alfa Banking Group's total gross loans and advances to corporate customers as at 31 December 2010 amounted to U.S.$15,889 million, of which 90.3%, or U.S.$14,348 million, comprised corporate loans (excluding reverse sale and repurchase agreements with corporate clients, finance lease receivables and advances, loans to small and medium size companies), as compared to total gross loans and advances to corporate customers of U.S.$12,849 million, of which 89.2%, or U.S.$11,461 million, comprised corporate loans (excluding reverse sale and repurchase agreements with corporate clients, finance lease receivables and advances, loans to small and medium-sized companies), as at 31 December 2009. The commercial terms of the loans differ depending upon the clients' needs. Loans are available in Roubles, U.S. dollars, Euro and in certain other foreign currencies. The Alfa Banking Group is continuing to develop its portfolio of medium-term (one to three years) and long-term (over three years) loans to corporate entities concentrating on low- and moderate-risk segments. See "*Selected Statistical and Other Information*".

The Alfa Banking Group is providing its lending services to Russian companies and their subsidiaries through arrangement of, and participation in, syndicated loans placed both in Russian and international and primary and secondary markets. See "— *Structured Finance*". Syndicated lending is considered one of the prospective business

lines of the Alfa Banking Group in terms of potential high-yield return transactions and development of cooperative relationships with other counterparties on the financial markets and corporate clients.

Over the last few years, the Alfa Banking Group has provided loans to Russian power generation and distribution companies, retail chains, food production companies and companies in other growing industry sectors such as telecommunications and the media. As at 31 December 2010, individuals accounted for the largest portion of the Alfa Banking Group's loans and advances to customers (12.6%), followed by trade and commerce (11.4%), construction (11.4%), power generation (9.6%), railway transport (8.1%), ferrous metallurgy (8.1%) and finance and investment companies (5.9%). In comparison, as at 31 December 2009, construction accounted for the largest portion of the Alfa Banking Group's loans and advances to customers (16%), followed by individuals (14%), railway transport (11%), trade and commerce (9%), power generation (7%), machinery and metal working (5%), finance and investment companies (5%) and ferrous metallurgy (4%).

The Alfa Banking Group's credit products for corporate entities also include guarantees. Guarantees include loan guarantees, performance guarantees, advance guarantees, payment guarantees, customs guarantees and bid bonds. Loan guarantees secure the repayment of a loan; performance guarantees secure obligations to deliver goods or provide services under export contracts; advance guarantees secure refunds of advance payments received under export contracts if the relevant obligations are not fulfilled; payment guarantees secure payment obligations under import contracts; customs guarantees secure payments of customs duties; and bid bonds secure obligations incurred through participation in tenders.

The Alfa Banking Group is continuing to develop and to offer more complex credit products, including products in the fields of financial leasing, project financing, merger and acquisition financing and the refinancing of the investment portfolios of specialised financial entities such as leasing companies and property investment funds.

Bank Account, Deposit and Settlement Services

As at 31 December 2010, customer accounts held with the Alfa Banking Group totalled U.S.$16,812 million, of which U.S.$7,581 million (or 45.1%) were held by commercial organisations and U.S.$1,171 million (or 7.0%) were held by state and public organisations. As at 31 December 2009, customer accounts held with the Alfa Banking Group totalled U.S.$13,686 million, of which U.S.$5,788 million (or 42.3%) were held by commercial organisations and U.S.$960 million (or 7.0%) were held by state and public organisations. The largest economic sector concentration within corporate customer accounts as at 31 December 2010 was energy, oil and gas companies, which held accounts with a value of U.S.$2,321 million (or 13.8% of total customer accounts with the Alfa Banking Group).

The Alfa Banking Group assists corporate entities with opening bank accounts and advises them on various banking operations and the use of different banking products in their business. The Alfa Banking Group's bank accounts for corporate entities include current and term accounts in Roubles and in certain foreign currencies (predominantly U.S. dollars and Euro), as well as special-purpose accounts such as payment accounts used to settle obligations with Russian counterparties and current accounts denominated in foreign currencies used for currency operations. Companies operating across the Russian Federation are able to receive services through the Alfa Banking Group's branch network. The Alfa Banking Group also provides payment and settlement services to its clients through its branches as well as through its correspondent banking network in the Russian Federation and abroad. The Alfa Banking Group provides payment services to foreign subsidiaries of Russian clients through its foreign banks. In 2007, the Trading Systems Administrator for the Russian Federal wholesale electricity market selected the Alfa Banking Group as its official lending institution for the performance of settlements between participants in the wholesale electricity market. As part of this project, the Alfa Banking Group has opened 448 settlement and trading accounts for its market participants. In 2009, the Alfa Banking Group was also selected as the settlement bank for the Russian Association of Auto Insurers. Settlement services have become a priority for Alfa Bank, and it plans to expand it further.

In addition to traditional banking services, the Alfa Banking Group offers what it believes are innovative technological solutions in the Russian market that enable its clients to reduce their payment processing costs and centralise their cash flow management by using the Alfa Banking Group's continuously available electronic network and special cash management products. In 2008, the Alfa Banking Group completed the implementation of a programme of strategic initiatives to standardise the Alfa Banking Group's product and service sales and delivery across the Russian Federation that provides clients e-banking and other remote services ("**Alfa-Client Online**") and centralises paying processes. See "*IT Infrastructure—Eurasia programme*".

International and Trade Finance

In 2009, the Alfa Banking Group's Financial Institutions department merged with the Trade Finance department in order to strengthen the focus on trade finance in the international area. The new joint department of International and Trade Finance also operates Alfa Banking Group's correspondent banking business and manages general relationship issues with foreign banks.

The Alfa Banking Group provides a wide range of trade finance products for its corporate customers, including payment and settlement services in connection with import and export operations, issuing import, export and stand-by letters of credit, issuing letters of guarantees and related services. The Alfa Banking Group also provides pre-export financing for corporate entities. In addition, the Alfa Banking Group provides import financing using funds from foreign banks and support from export credit agencies that provide long-term facilities to finance imports of capital goods. The total volume of trade finance transactions in 2010 was approximately U.S.$800 million and was approximately U.S.$74.9 million in 2009. During 2010 and 2009, the Alfa Banking Group provided its customers funding for a number of notable deals, for example, the U.S.$200 million purchase of mobile electronic devices for a large mobile retailer in Russia from leading Korean manufacturers in May and June 2010 and a €38 million construction project in St. Petersburg with funding covered by credit insurance through export credit agencies in August 2010 and February 2011. Global Finance magazine included Alfa Bank in the "Best Trade Finance Banks and Providers" category in a survey published in its February 2008 issue[29]. The magazine also named Alfa Bank the "Best Trade Finance Bank in Russia" for 2008, having previously awarded Alfa Bank this recognition in 2001, 2003, 2004 and 2007[30].

As at 31 December 2010, the Alfa Banking Group had a global correspondent network involving approximately 1,000 institutions with whom authenticated SWIFT keys are established. Alfa Bank has up to 155 Nostro accounts with leading banks in the CIS, the United States, Western Europe and Asia. International and domestic clearing is carried out through SWIFT. The Alfa Banking Group's counterparties in the international clearing operations include, among others, Commerzbank AG, UBS AG, Bank of New York, HSBC, Wells Fargo Bank NA, Standard Chartered Bank and RZB AG. The Alfa Banking Group believes that its developed global correspondent network, as well as the availability of different credit facilities from the international banking community, have been among the key elements of its growth.

Structured Finance

The Structured Finance Department of the Corporate Banking Division offers clients a range of customised, complex credit products including project and structured finance and syndicated lending.

The project and structured finance involves predominantly medium-term to long-term products including acquisition and leveraged finance, complex capital expenditure corporate loans and limited recourse project financings. Recent project finance transactions of the Alfa Banking Group included a RUR5 billion loan to a chemical producer to expand and diversify its product line and U.S.$33 million loan to a cement producer company.

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[29] Source: Global Finance Magazine

[30] Source: Global Finance Magazine

The syndications line covers the distribution needs of the structured finance transactions. The syndication desk also operates arrangement and participation in the syndicated loans for the Alfa Banking Group clients. It covers all stages of the transaction including its structuring, preparation for distribution, sales and execution when placing the syndicated deals in a primary market. In 2010 Alfa Bank, along with other Russian and international banks, participated in the restructuring of SMR Group's loan portfolio using a U.S$122 million four-year syndicated loan and the restructuring of Gaz Group's loan portfolio using a RUR39.3 billion five-year syndicated loan.

Secondary market transactions also fall within the scope the of Alfa Banking Group's strategy and are being actively developed within the Structured Finance Department.

Corporate Finance

The Alfa Banking Group's corporate finance unit provides advice and transactional support in relation to the following areas: general corporate strategy; mergers and acquisitions advice and execution; the structuring and execution of equity offerings, including initial public offerings and private placements. In providing all these services, the Alfa Banking Group's corporate finance division draws on both its local knowledge and its international expertise to advise clients on investment both within and into markets in the Russian Federation and the CIS.

In 2008 and 2009, the Alfa Banking Group's mergers and acquisition unit advised on a wide range of transactions in various industries, including energy utilities, metal and mining and telecommunications. The volume of the unit's closed transactions was approximately U.S.$5 billion during those two years. Notable deals on which the Alfa Banking Group's mergers and acquisitions unit acted during 2008 and 2009 included the acquisition of TGK-10 by Fortum of Finland and the acquisition of ISTIL Group by ESTAR Group shareholders, the latter of which won the Best M&A Deal in the CIS awarded by EMEA Finance. There have been no significant transactions in the Alfa Banking Group's mergers and acquisition unit in 2010.

In the field of equity capital markets, significant transactions in which the Alfa Banking Group was involved during 2008 and 2009 included a U.S.$1.1 billion rights offering for X5 Retail Group. The Alfa Banking Group has not participated in any significant transactions in the field of equity capital markets in 2010.

Equities

The Alfa Banking Group's equities business runs one of the Russian Federation's and Ukraine's leading brokerages and is an active participant on all major exchanges where Russian and Ukrainian securities are traded, including the RTS, MICEX and the GDR/ADR markets in London and New York. The cumulative volume of transactions executed by the Alfa Banking Group's equities business in the domestic regulated (through MICEX) market was approximately RUR763 billion and RUR762 billion in 2010 and 2009, respectively.

The equities business specialises in the following areas: distribution of equity offerings; equity sales and trading (both on behalf of clients and on the Alfa Banking Group's own account), block trades, equity derivatives and equity research. Based upon its experience of operating in the financial markets of Russia and the CIS, the Alfa Banking Group sees one of its most important strategic objectives as offering its clients the opportunity to invest in the securities of issuers from these growing economies.

The equities business has also developed an internet based trading platform called Alfa Direct Service (Russia) ("**Alfa Direct**"), which has serviced thousands of retail clients across the Russian Federation since 2000. Alfa Direct provides clients with a variety of financial information and allows them to complete securities transactions on all main Russian exchanges via the internet. In 2010, the number of client accounts with Alfa Direct grew approximately 27% to over 49,000 and by 28 February 2011, the number of client accounts with Alfa Direct grew approximately 4% to approximately 51,000. Cumulative trading volumes through Alfa Direct during 2010 were approximately U.S.$23 billion as compared to approximately U.S.$25 billion in 2009. The relatively flat trading volumes in 2010 and 2009 despite a 27% increase in the number of client accounts in 2010 are due to the current limitations on the volume of transactions that Alfa Direct's trading system can process.

The Alfa Banking Group's equities business also contains a research department that analyses overall market conditions and macroeconomic trends and produces independent research consisting of industry and company-specific reports. It forms the core of the Alfa Banking Group's expertise in monitoring current developments and evaluating investment opportunities in the Russian Federation and the CIS. The quality of Alfa Banking Group's equities research department was recognised by *Global Finance* magazine with an award for "Best Equity Research Bank in Russia" in 2008[31].

In 2005, the Alfa Banking Group's London operations were reorganised as a branch of Alfa Capital Holdings (Cyprus) Limited and became a member firm of the London Stock Exchange. It is authorised by the Cyprus Securities Exchange Commission ("**CySEC**") and regulated by the UK Financial Services Authority to provide brokerage and investment banking services and to distribute research to UK and European institutional clients. The Alfa Banking Group's London operations aim to provide a platform through which the Alfa Banking Group can work to help institutional investors and hedge fund clients in the UK and continental Europe access deals in the Russian Federation and other CIS countries. The Alfa Banking Group's U.S. operations are carried out through Alforma Capital Markets, Inc. ("**Alforma Capital Markets**"), formerly known as Alfa Capital Markets (USA), Inc. Alforma Capital Markets is a New York corporation registered with the SEC as a broker-dealer. Alforma Capital Markets is focused on serving institutional investors and hedge fund clients in the United States, Canada and Latin America.

Fixed Income

The Alfa Banking Group's fixed income department engages in a wide range of brokerage services and market-making operations. Its priority products are Rouble corporate bonds and U.S. dollar or Euro denominated Eurobonds issued by Russian issuers. The total volume of the Alfa Banking Group's trades in the domestic regulated (through MICEX) Rouble market during 2010 amounted to RUR221,740 million (or approximately U.S.$7,276 million based on the CBR's official exchange rate as of 31 December 2010). In 2010, the Alfa Banking Group arranged nine corporate bond issues for a total amount of RUR49,000 million and one sovereign bond for the amount of RUR7,000 million.

In February 2011, as part of its overall plan to borrow RUR20,000 million by 15 December 2011, the Alfa Banking Group issued domestic Rouble-denominated bonds in the aggregate principal amount of RUR5,000 million. Alfa Bank acted as its own placement agent for this issue. In 2010, the Alfa Banking Group acted as a Joint Lead Manager for Alfa MTN Issuance Limited 8% guaranteed notes due 2015 for a total amount of U.S.$600 million and Alfa Bond Issuance plc 7.875% loan participation notes due 2017 in the principal amount of U.S.$1 billion.

The Alfa Banking Group's fixed income department also engages in margin trading, repo trading (in both local and hard currency), debt buybacks, structured products and derivatives. It is currently developing new, customised structured products for its clients, including principal protected notes (linked to the performance of Russian or other equity markets), credit default swaps, repackaged corporate loans, total return swaps, first to default swaps and loan basket refinancing. The Alfa Banking Group's fixed income department offers a full range of global over-the-counter market derivatives, including derivatives based on foreign exchange rates, interest rates and precious metals and provides the Alfa Banking Group's corporate clients with hedging solutions for their foreign exchange, commodity and interest rate risks.

[31] Source: Global Finance Magazine

Foreign Exchange Department

Alfa Banking Group maintains market making positions on the domestic and international foreign exchange markets, currently covering approximately 7-10% of Russia's Rouble/U.S. dollar turnover with proprietary and client driven operations on the bank-to-bank market and MICEX. Apart from traditional Rouble/U.S. dollar transactions, according to MICEX, Alfa Banking Group executes over 15-20% of the total trading volume of other CIS currencies (LCC Limited Convertible Currencies). According to internal estimates, the Alfa Banking Group executes over 20-25% of the total trading volume of G10 currencies in Russia. Alfa Banking Group is an active participant in the international FOREX markets with CLS settlement system, with a CLS limit totalling U.S.$2.5 billion. The Foreign Exchange Department's turnover on the Interbank foreign exchange market in 2009 was U.S.$1 trillion, in 2010 was U.S.$1.3 trillion according to internal estimates.

Retail Banking

The Alfa Banking Group's retail services currently focus on deposit taking, lending (including consumer finance, personal instalment loans and credit and debit cards, mortgage lending and auto loans) and certain ancillary services.

The Alfa Banking Group's retail banking operations generated external revenues of U.S.$824 million for the year ended 31 December 2010, as compared to U.S.$679 million for the year ended 31 December 2009, as compared to U.S.$670 million for the year ended 31 December 2008.

Customer Base

As at 31 December 2010, the Alfa Banking Group had approximately 5.3 million retail customers. According to calculations by Alfa Bank based on published CBR statistics, as at 1 January 2011, Alfa Bank had a 5.7% share of the Russian market in terms of retail demand deposits by value, making the Alfa Banking Group the third largest retail bank in the Russian Federation in terms of retail demand deposit accounts (behind Sberbank and VTB 24).

As at 31 December 2010, gross loans to retail customers (comprising credit card and personal instalment loans, car loans, consumer loans, and mortgage loans and reverse sale and repurchase agreements relating to individuals) accounted for U.S.$2,286 million (or 12.6% of the Alfa Banking Group's gross loans and advances to customers), compared to U.S.$2,104 million (or 14.1%) of its gross loans and advances to customers, as at 31 December 2009 and U.S.$2,687 million (or 14.0%) of its gross loans and advances to customers, as at 31 December 2008.

Customer accounts

As at 31 December 2010, customer accounts totalled U.S.$16,812 million, of which U.S.$8,060 million (or 47.9% of total customer accounts) were individual accounts. Of these individual accounts, as at 31 December 2010, U.S.$3,595 million (or 44.6%) comprised current/settlement accounts, and U.S.$4,465 million (or 55.4%) comprised term deposits. This compares to the position as at 31 December 2009, when customer accounts held with the Alfa Banking Group totalled U.S.$13,686 million, of which U.S.$6,938 million (or 50.7%) comprised accounts held by individuals, divided between U.S.$2,901 million (or 41.8%) of current/demand accounts, and U.S.$4,037 million (or 58.2%) of term deposits. As at 31 December 2008, customer accounts held with the Alfa Banking Group totalled U.S.$12,582 million, of which U.S.$6,146 million (or 48.8%) comprised accounts held by individuals, divided between U.S.$3,392 million (or 55.2%) of current/demand accounts, and U.S.$2,754 million (or 44.8%) of term deposits.

Because it believes current/demand account holders are more likely to be loyal to the Alfa Banking Group and more likely to make use of the full range of services provided by the Alfa Banking Group, the Alfa Banking Group continues to focus on increasing the number of current and demand retail accounts held with it, particularly among the employees of companies that deposit their salaries directly into Alfa Bank accounts, in order to increase its market share.

The Alfa Banking Group is expanding its product range of term deposits and has recently started offering index-linked deposits, multicurrency deposits and deposits that allow customers to select the precise term they require. In July 2010, the Alfa Banking Group introduced a new on-line service that allows customers to open and replenish term deposits on-line.

The Alfa Banking Group provides a number of ancillary services to retail customers in the Russian Federation. It buys, sells and exchanges all major foreign currencies and cashes foreign payment instruments and travellers cheques. Individuals can make direct payments from their bank accounts and pay for goods and services via the internet with their Alfa Banking Group debit cards. They also may transfer funds domestically and internationally through the Alfa Bank correspondent banking network, purchase travellers cheques and rent safe deposit boxes to store valuables.

Alfa Bank is a member of the Russian Deposit Insurance System, which currently guarantees full repayment of deposits up to RUR700,000 per individual in the event that the banking licence of a Russian bank is withdrawn or the CBR imposes a moratorium on payments made by that Russian bank.

Consumer finance

Alfa Bank's consumer finance loans and advances amounted to U.S.$856 million as at 31 December 2010, U.S.$387 million as at 31 December 2009 and U.S.$499 million as at 31 December 2008. As at 31 December 2010, the Alfa Banking Group's consumer finance business was active in 64 regions of the Russian Federation and had approximately 1.1 million customers.

The Alfa Banking Group consumer finance products can be broken down into two categories—credit cards (grouped separately from the primary credit card business discussed below; see "*—Personal instalment loans and credit and debit cards*) and financing offered through partnerships with certain approved retailers. The consumer finance business offers four types of credit cards: (i) VISA Electron/Cirrus/Maestro (an international credit card with revolving, termless credit), (ii) local consumer cards (domestic cards with non-revolving, termless credit, that can only be used in certain retail chains), (iii) network consumer cards (domestic cards with revolving, termless credit), and (iv) VISA Instant Issue cards (international credit card with revolving, termless credit).

The consumer finance business offers financing through partnerships with approved retailers on a range of travel, insurance, car-rental, dining, fashion and beauty services, household goods and mobile handsets. Alfa Bank believes that in the future these types of partnerships with retailers will constitute a less important part of its consumer finance portfolio than credit cards, which already account for a larger part of its revenue and generate longer term and more profitable customer relationships for the Alfa Banking Group. The greater part of these partnerships with retailers are centred on the home appliance, or "white goods", market, which is an economic sector which is undergoing consolidation within the Russian Federation, leading to a reduction in the number of potential partners for banks such as Alfa Bank who engage in this form of consumer finance. This decline in potential partners drives up the levels of commission banks pay to retailers for the opportunity to provide financing to customers as banks compete for retail partners (partnership agreements are typically renewed on an annual basis).

In the short term, however, the Alfa Banking Group has negotiated more favourable terms with a number of its partners and has aggressively expanded its presence at points-of-sale, from approximately 2,300 prior to the crisis to approximately 17,258 as at 31 December 2010. While there is again increasing pressure from competition, the Alfa Banking Group believes that this type of financing will continue to provide the Alfa Banking Group with new clients to whom it can cross-sell other products and plans to expand its consumer finance business.

The Alfa Banking Group uses a proprietary method of evaluating a potential consumer credit customer's credit risk based upon the customer's submitted consumer finance application, which determines whether credit will be extended to the consumer.

Personal instalment loans and credit and debit cards

The Alfa Banking Group's personal instalment loan and credit card loans and advances to customers totalled U.S.$824 million as at 31 December 2010, U.S.$835 million as at 31 December 2009 and U.S.$962 million as at 31 December 2008.

Since January 2007, the Alfa Banking Group has offered personal instalment loans ranging from RUR30,000 to RUR1,500,000 for terms of between one to five years. In 2007, the Alfa Banking Group switched the focus of its personal instalment loans business from the public at large to premium clients and the employees of companies that are payroll customers of the Alfa Banking Group as well as its existing customer base. The Alfa Banking Group plans to expand the number of offers for personal instalment loans to employees of payroll customers as it believes this group represents a lower credit risk due to the fact they earn higher incomes or because the Alfa Banking Group can more accurately evaluate the individuals' ability to service a loan due to the Alfa Banking Group's knowledge of their credit histories and employment.

The Alfa Banking Group also issues VISA and MasterCard debit and credit cards to its retail clients. The card-holders pay annual and transaction-based fees for using the cards. As at 31 December 2010, the Alfa Banking Group had in issue more than 10.5 million individual cards. Retail clients can apply for these cards via the Alfa Banking Group's branches or its website. The Alfa Banking Group uses special risk-assessment software to approve credit card applications, allowing expedited credit decisions once the customer presents certain documents. Retail clients are offered classic/standard, gold and platinum versions of VISA and MasterCard credit cards. Credit cards have limits of up to 390% of a customer's monthly income and 60 calendar day grace periods.

The Alfa Banking Group has developed a number of loyalty co-branded programmes involving its credit card business such as Aeroflot-MasterCard-Alfa Bank, Ural Airlines-Visa, S7-Visa, Alfa-Bank Cosmopolitan Visa, Mancard, M.Video, Perekrestok, Karusel and WWF-Alfa Bank. Aeroflot-MasterCard, Ural Airlines-Visa and S7-Visa-Alfa Bank cards allow holders to accumulate points (miles) as they pay for goods and services. The Alfa Banking Group also offers the so-called lifestyle cards, namely Alfa-Bank Cosmopolitan Visa and Mancard, which allow holders to make purchases and receive services at a discount. Another credit card programme is co-branding with retailers such as Perekrestok, Karusel and M-Video. Finally, the Alfa Banking Group offers a transportation card, Alfa Bank – Metrocard, and a charitable card, WWF-Alfa Bank. As at 31 December 2010, the Alfa Banking Group had in issue approximately 525,000 co-branded cards.

Mortgage lending

The Alfa Banking Group's retail mortgage portfolio totalled U.S.$355 million as at 31 December 2010, U.S.$428 million as at 31 December 2009 and U.S.$509 million as at 31 December 2008. As at 31 December 2010, 5.6% of the Alfa Banking Group's gross mortgage loans and advances to customers were impaired, as compared to 7.7% as at 31 December 2009 and 1.2% as at 31 December 2008. While impaired loans improved for the year ended t 31 December 2010 compared to 31 December 2009, the Alfa Banking Group's internal measure of delinquent loans in its gross mortgage portfolio, which includes loans, which are overdue, continued to increase slightly. Despite Alfa Bank's decision to scale back its mortgage lending business in response to the global financial crisis, the Alfa Banking Group's management believes there is significant potential for future growth and has resumed increasing the size of its mortgage portfolio.

The Alfa Banking Group began offering mortgages to its employees in early 2006 and began offering retail mortgage loans to the market at large by August 2006. In 2007 and 2008, the Alfa Banking Group expanded the range of properties for which it offered mortgages to include apartments in the secondary residential real estate market, holiday homes, new construction apartments and refinancing of mortgages originated by other banks. The Alfa Banking Group's mortgage underwriting procedures (borrower and collateral underwriting) were developed in accordance with IFC and EBRD underwriting criteria.

As at 31 December 2010, the Alfa Banking Group had 12 mortgage centres—in Moscow, Yekaterinburg, Krasnoyarsk, Novosibirsk, Perm, Togliatti, Ufa, Chelyabinsk, Yaroslavl, Barnaul, St. Petersburg and Nizhniy

Novgorod. Currently mortgage products in highest demand are loans for apartments in the secondary residential real estate market, holiday homes and refinancing of mortgages originated by other banks.

The Alfa Banking Group's management believes that the Alfa Banking Group has used a conservative model for its mortgage lending operations, especially in comparison to its peers in the market that has resulted in a high quality mortgage portfolio. As at 31 December 2010, the Alfa Banking Group mortgages had an average loan-to-value ratio of approximately 59%.

The Alfa Banking Group's management believes its competitive advantages in the mortgage market include a high quality of customer service, short application handling periods, short early payment moratoriums, competitive interest rates and a large number of repayment methods including internet payments (relied on by more than 26% of the Alfa Banking Group's mortgage customers in the Moscow area). The Alfa Banking Group had partnership relationships with well-established real estate companies and brokers.

Auto loans

The total value of the Alfa Banking Group's auto loans and advances to customers was U.S.$216 million as at 31 December 2010, U.S.$426 million as at 31 December 2009 and U.S.$705 million as at 31 December 2008.

The Alfa Banking Group started to offer auto loans at the end of 2005. During 2009, due to the global financial crisis the Alfa Banking Group scaled back its auto lending business and imposed tighter cash lending conditions for clients which led to a reduction in the size of the portfolio. Furthermore, due to the increased competition from state owned banks, which have access to a much cheaper financing than the Alfa Banking Group and thus are able to offer customers more attractive terms, the Alfa Banking Group decided to reduce its auto lending operations, focusing primarily on its low risk corporate and VIP client base.

Alfa Bank retail branches

The Alfa Banking Group's retail banking business is conducted by its network of branches, which aim to provide easy-to-understand, convenient and efficient service to individuals and small businesses. Most of Alfa Banking Group's branches offer customers 24-hour access to their accounts through telephone, internet and self-service channels. Branches offer customers a range of checking and savings accounts in Roubles, U.S. dollars and Euros; credit cards; overdraft facilities; instant cash transfers; pre-paid cash cards and safe deposit boxes. The Alfa Banking Group offers its customers different tariff plans with tiered levels of service. All tariff plans offer:

- up to three separate checking and savings accounts in Roubles, U.S. dollars and Euro;
- VISA Instant Issue cards, which can be used for withdrawing cash from ATM machines and come with a limited set of services;
- MasterCard Virtual cards, which are used solely for internet banking services;
- up to four international debit cards; and
- the ability to make payments and access customer accounts through a variety of methods including in person at branches, via the internet and using SMS messaging.

As it has focused on developing the profitability of its retail operations, the Alfa Banking Group has also taken a more flexible approach to placement of branches. As further discussed under "—*Property*" below, most of the Alfa Banking Group's branches are operated under three to five year leases. Given sharp increases in rental costs in recent years, particularly in the Moscow area, the Alfa Banking Group carefully considers the viability of maintaining a branch at a given location upon expiration of its lease. If an increase in rent makes a branch uneconomic, the Alfa Banking Group relocates the branch. In the Moscow area this has resulted in the Alfa Banking Group closing some branches in central locations, which were initially chosen to raise the profile of the Alfa Banking Group's retail operations. These branches were relocated to more residential, or so called

"dormitory", areas. The Alfa Banking Group's management believes this policy will increase branch network profitability.

Ensuring high standards of quality and consistency in its retail operations is a key focus for the Alfa Banking Group. To this end, it conducts a variety of operational audits and tests. These include "mystery shopper exercises", where branches are anonymously inspected to check the quality of service delivery, approximately four times each quarter. The Alfa Banking Group also performs a variety of consumer survey operations, including internet voting on the performance of branches, and "voice of the customer" exercises, which involve the Alfa Banking Group surveying its customers' views by telephone.

In January 2006, the Alfa Banking Group established a pilot programme for VIP clients with demand accounts of at least U.S.$100,000 or term deposits of at least U.S.$300,000 or who held Alfa Banking Group investment products of at least U.S.$400,000. The programme offers clients a qualified personal account manager, segregated VIP customer service areas in their local branch and priority service in other branches of the Alfa Banking Group.

In 2006 the Alfa Banking Group also launched its first A-Club. A-Club clients have access both to an exclusive range of private banking services and products, and 24-hour support from a personal manager. Additional benefits include access to a global ATM network under terms, which provide for the reimbursement of commissions charged on withdrawals from the ATMs of third party banks. During 2007, the Alfa Banking Group opened two additional A-Club offices in Moscow. Since then A-Club offices have been opened in St. Petersburg, Novosibirsk, Ekaterinburg, Samara and Tyumen. As at 31 December 2010, 1,635 clients belonged to the A-Club.

Recent retail service delivery developments

One of the Alfa Banking Group's highest priorities for its retail business has been the development of infrastructure to provide its customers with convenient, easy to use banking services. This has led Alfa Banking Group to install several hundred ATMs capable of receiving cash deposits and developing remote customer service channels. Since 2007 the Alfa Banking Group has sought to increase the functionality of its internet banking service, Alfa-Click, by adding payment options for mobile phone services, internet, utilities, replenishment of Alfa Direct brokerage accounts, enabling customers to buy investment units direct from Alfa Capital, etc. The number of customers using Alfa-Click as at 31 December 2010 rose to approximately 1.2 million individuals, a 59% increase on the number of customers using Alfa-Click as at 31 December 2009. The Alfa Banking Group has also developed a mobile phone based access system, "Alfa-Mobile", which offers the same service options as Alfa-Click, and has also developed an SMS banking service.

In 2008, the Alfa Banking Group merged all of its retail banking units into a single business unit, which allows it to now offer both its settlement and credit products to all of its customers using a single sales channel. During 2008 the Alfa Banking Group also completed its regional development plan. As a result, the Alfa Banking Group is now present in all Russian cities with more than 1,000,000 people and nearly all cities with more than 500,000 people.

In 2008, the Alfa Banking Group also acquired Severnaya Kazna bank, a major financial institution in the Urals region which considerably strengthened its position in that market. During 2009, the retail banking operations undertook the integration of Severnaya Kazna Bank's customer base, which brought the Alfa Banking Group around 120,000 clients. In addition, 28 of Severnaya Kazna's retail branches were fully rebranded and converted to the Alfa Bank format during 2009. See "*—OJSC Bank Severnaya Kazna*".

The Alfa Banking Group continues to focus on modernising its procedures (including information management) in order to improve its credit origination and analysis, customer support and collection processes so that it can better facilitate customer management and cross-selling, reduce losses from fraud and refine its pricing, particularly to reflect regional risk variations.

Treasury

Alfa Bank's Treasury Department has historically been responsible principally for the Alfa Banking Group's liquidity and interest risk management functions and maintenance of open foreign exchange positions as directed by the Asset and Liability Committee, as well as methodological and analytical functions. In 2009, the Treasury Department was reorganised so that the foreign exchange operations were transferred to the investment banking division and Treasury Department functions now include the Alfa Banking Group's asset and liabilities management and money market operations. See "*Risk Management*" below for a further discussion of the Asset and Liability Committee and its operations.

The Alfa Banking Group's treasury operations generated external revenues of U.S.$141 million for the year ended 31 December 2010, as compared to U.S.$92 million for the year ended 31 December 2009, as compared to U.S.$345 million for the year ended 31 December 2008.

Asset and Liability Management Functions/Interest Rate Management

Alfa Bank's Treasury Department supports the Asset and Liability Committee in carrying out the asset and liability management functions, as well as the interest rate management functions, of the Alfa Banking Group. This entails, amongst other things, the analysis, monitoring and management of the Alfa Banking Group's liquidity, foreign currency and interest rate positions under the authorities granted to it by the Asset and Liability Committee. In order to calculate its exposures, the Alfa Banking Group currently produces a consolidated balance sheet for its Russian operations on a daily basis, and intends to expand this practice to include its international operations (exposure limits in the Alfa Banking Group's international operations are currently monitored on a parallel, rather than consolidated, basis). In 2007, Alfa Banking Group began to use a Kamakura Corporation risk management software system in order to improve the efficiency of this monitoring process, as well as to improve its market risk management and transfer pricing systems. The Alfa Banking Group's liquidity is monitored on a daily basis, and interest rate risk is assessed on a weekly basis. *See* "*Risk Management—Interest Rate Risk*". In 2007, as part of its liquidity management process the Alfa Banking Group developed a portfolio of debt investments available for sale, which is intended to complement the correspondent account cash management of the Treasury Department and provide an additional buffer for the Alfa Banking Group's liquidity requirements. As at 31 December 2009, this portfolio amounted to U.S.$1,009 million and had increased to U.S.$1,351 million at 31 December 2010. The Treasury Department also makes recommendations concerning lending rates to the Asset and Liability Committee and transfer pricing rates between the Alfa Banking Group's different divisions. In order to improve the interface between the Treasury Department and other divisions of the Alfa Banking Group, and in particular with the Alfa Banking Group's investment banking and corporate banking businesses, the Treasury Department has introduced a treasury marketing unit. The Asset and Liability Committee establishes balance sheet structure limits, which the asset and liability management unit of the Treasury Department monitors on a quarterly basis. The Asset and Liability Committee establishes liability concentration limits which the middle office monitors daily.

Major Subsidiaries

ATB

ATB was incorporated in October 1994 in Amsterdam, The Netherlands, and holds a full banking licence from the Dutch Central Bank (De Nederlandsche Bank N.V.). In March 2001, the Alfa Banking Group acquired a 100% interest in ATB. The Alfa Banking Group is currently considering disposing of ATB to companies within the Alfa Consortium.

ATB provides banking, consulting and project finance services to a wide range of corporate clients with a particular focus in trade finance services involving the Russian Federation, other CIS countries and the European Union. ATB also facilitates foreign direct investment in the Russian Federation and the CIS. ATB is a member of SWIFT, TARGET and Interpay settlement systems and issues private and corporate MasterCards. ATB is the main correspondent bank of Alfa Bank for Euro-denominated clearing services.

In 2008 and 2009, ATB continued to implement its deposit-servicing programme in the Netherlands using Internet technology. The volume of total customer accounts attracted as at 31 December 2010 was €2,014 million (€2,174 million as at 31 December 2009). This decrease was mostly attributable to retail deposits and current accounts.

ATB's assets as at 31 December 2010 decreased 6.1% to approximately €2,474 million from approximately €2,635 million as at 31 December 2009.

ATB's net profit for the year ended 31 December 2010 amounted to €11 million. ATB's net profit for the year ended 31 December 2009 was €14 million, as compared to €16 million for the year ended 31 December 2008.

In 2005, the Alfa Banking Group granted a subordinated loan of €45 million to ATB; an additional €45 million was granted in 2007. The loan matures on October 30, 2020.

On 1 April 2011, ATB declared a dividend for the year ended 31 December 2010 in the amount of €8 million to Alfa Bank, its sole shareholder.

JSB SB Alfa-Bank Kazakhstan

On 29 June 2009, the Alfa Banking Group signed a call option agreement with ABH Holdings (then ABH Holdings Corp., now ABH Holdings S.A.), whereby in exchange for an option premium of U.S.$63 million ABH Holdings received a right to acquire for a fixed consideration, and at any time until 29 June 2014, shares representing a 100% interest in JSC SB Alfa Bank Kazakhstan ("**Alfa Bank Kazakhstan**"). Also, in accordance with the call option agreement, (i) the Alfa Banking Group is required to ensure that during the option period ABH Holdings has a majority in the Board of Directors of Alfa Bank Kazakhstan and (ii) any income received by the Alfa Banking Group from Alfa Bank Kazakhstan after 29 June 2009 is to be transferred to ABH Holdings. following the execution of the option. On 31 December 2009, a supplement to the call option agreement was executed, pursuant to which any income received by the Alfa Banking Group from Alfa Bank Kazakhstan is required to be transferred to ABH Holdings within 30 days of receipt of such amounts even if this occurred before the execution of the option. The call option agreement, as supplemented, effectively transferred to ABH Holdings all potential voting rights and economic benefits relating to Alfa Bank Kazakhstan. The Alfa Banking Group accounted for this transaction as a disposal of its interest in Alfa Bank Kazakhstan and recorded a loss on disposal of U.S.$5 million. At the time of disposal, the total assets of Alfa Bank Kazakhstan were U.S.$268 million, of which cash and cash equivalents comprised U.S.$118 million, and total liabilities were U.S.$200 million.

On 30 March 2011, Alfa Bank Kazakhstan declared a dividend for the year ended 31 December 2010 in the amount of U.S.$2.8 million, which is to be transferred by Alfa Bank to ABH Holdings S.A. pursuant to the call option agreement.

Alforma Capital Markets (formerly known as Alfa Capital Markets (USA))

Alforma Capital Markets, a wholly-owned subsidiary of Alfa Bank headquartered in New York, is an SEC-registered broker-dealer that acts as the U.S. arm of the Alfa Banking Group's investment banking business. It was formerly known as Alfa Capital Markets (USA), Inc. It provides brokerage and investment services to institutional investors and hedge fund clients in the United States, Canada and Latin America investing in the Russian market. Alforma Capital Markets' operations consist of sales research, sales and trading, and securities compliance. Alforma Capital Markets is active on all major U.S. equity exchanges, and has direct trading lines open with both Moscow and London, operating in real time on exchanges in which it participates. It plans to distribute the Alfa Banking Group's products to all major financial institutional clients in the United States and to be a gateway for investment by the Alfa Banking Group's U.S., Canadian and Latin American clients into the Russian Federation.

Alfa Capital Holdings (Cyprus) Limited

Alfa Capital Holdings (Cyprus) Limited was incorporated in Cyprus on 23 April 1996. As at 31 December 2010 Alfa Capital Holdings (Cyprus) Limited was 30.3% directly owned by ABH Financial and 29.9% directly owned by Alfa Bank. In March 2011, Alfa Bank acquired an additional 20% of Alfa Capital Holdings (Cyprus) Limited.

Subject to regulatory approvals, Alfa Bank plans to purchase the remaining 19.8% of Alfa Capital Holdings (Cyprus) Limited (in respect of which ABH Financial currently holds rights to the economic benefits). Alfa Bank expects the regulators to approve the purchase in the near future and plans to complete the purchase no later than 20 July 2011.

Alfa Capital Holdings (Cyprus) Limited's principal activities are transactions in Russian and Ukrainian equity and debt securities and investments, the investment of surplus cash into bonds, deposits, loans and other financial instruments, and the provision of financial services to members of the Alfa Banking Group. Alfa Capital Holdings (Cyprus) Limited is licensed by the CySEC to engage principally in brokerage activities and proprietary trading. The licence entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus.

OJSC Bank Severnaya Kazna

In 2008, Alfa Bank acquired an 85.02% stake in Severnaya Kazna bank, a major financial institution in the Urals region, represented in Yekaterinburg, Chelyabinsk, Perm, Tyumen and other regional cities, which had 400,000 retail customers and 8,000 corporate customers at the time of acquisition. Its principal activities include lending to retail and SME clients. On 3 June 2010, the Alfa Banking Group purchased an additional 10.003% of Severnaya Kazna's shares, which increased its equity stake to 95.031%, and in September 2010 the Alfa Banking Group completed the process of squeezing out the remaining shareholders and from that point onwards, has held 100% of Severnaya Kazna's shares. On 22 March 2011, the shareholders of Alfa Bank approved the merger of Severnaya Kazna into Alfa Bank. Subject to regulatory approvals, Alfa Bank plans to complete the merger with Severnaya Kazna by June 2011.

Planned Divestiture of Non-core Assets

The Alfa Banking Group currently holds certain non-banking assets that it considers to be non-core assets. The Alfa Banking Group remains open to opportunities to divest its interests in such non-core businesses subject to, among other things, market conditions. As at 31 December 2010, these assets amounted to approximately U.S.$347 million, which include the investment in Pamplona Credit Opportunities Fund in the amount of U.S.$336 million and repossessed collateral received in the course of problem debt restructuring in the amount of U.S.$11 million. This compares to U.S.$490 million of investments of Pamplona funds, repossessed collateral and other non-core assets held as at 31 December 2009 and U.S.$55 million as at 31 December 2008.

IT Infrastructure

The Alfa Banking Group has created a number of information technology projects to increase the efficiency of its banking operations. As at 31 December 2010, the Alfa Banking Group had capital commitments related to the purchase and installation of new computer systems totalling U.S.$14 million, as compared to capital commitments related to the purchase and installation of new computer systems of U.S.$6 million as at 31 December 2009 and U.S.$49 million as at 31 December 2008.

Eurasia programme

The Eurasia programme, which Alfa Banking Group undertook to standardise product and service sales and delivery, was successfully completed in 2008. See "*—Corporate and Investment Banking—Bank Account, Deposit and Settlement Services*" above. The Eurasia programme implemented technologies that allow Alfa Banking Group to sell new banking products and serve corporate clients across nine time zones. Key components of the programme included the centralisation of the Alfa Banking Group's technology platform on a Misys Equation software system as part of the OMEGA programme (discussed in more detail below), the provision of e-banking and other remote services for corporate clients through Alfa-Client Online (discussed in more detail below), and a unified reporting system to ensure more consistent and reliable customer data collection and management. The programme:

- creates a unified information and operational space for corporate client services;

- gives corporate customers the ability to use a full spectrum of products and services which include remote control of accounts;
- replaces obsolete systems and technologies in branches with modern IT systems located in Moscow;
- centralises back-office operations with operational and bookkeeping accounting of credit operations, and
- centralises paying processes.

OMEGA and Everest Programmes

Part of the Alfa Banking Group's strategy is to be the most technologically advanced and efficient banking group in Russia. To achieve this objective, the Alfa Banking Group launched the OMEGA programme in 1999. As part of the OMEGA programme the Alfa Banking Group began using the Misys platform, which has resulted in a highly-automated business throughout its back, middle and front office systems, its central management and its branch network, which is in line with the Alfa Banking Group's strategy of using technology to standardize product sales and services across its operations.

The Alfa Banking Group continues to improve its IT infrastructure. In March 2011, it completed the implementation of the latest version of the Misys Equation software system, Equation 3.9 (Everest Programme) to provide infrastructure that will allow the Alfa Banking Group to timely introduce new loan and savings products. It will also provide an improved technological platform for expanding its business across different regions.

Gemini project

The Gemini project is an IT project focused on implementing cost effective IT solutions for the Alfa Banking Group's retail business. The Gemini project consists of advanced technology front ends and end customer applications, such as internet banking and Java/GSM, for mobile phone banking. It is based on an innovative core Business Process Management software engine, which enables the Alfa Banking Group to optimise its business process on a rolling and continual basis for consumer finance, credit cards and other products.

The Gemini project continues to evolve as it develops online banking services serving a large number of clients. Today more than 45,000 corporate and 1,300,000 active individual customers carry out approximately 60,000 payment transactions a day (not including direct transactions between clients and via direct payment gateways such as cell phone balance top-ups).

Enterprise Credit Risk Management Programme

In 2006, Alfa Banking Group launched its Enterprise Credit Risk programme, implementing a wide range of management processes and systems to support all of its business lines. Aspects of this programme included:

- implementation of Fair Isaac's Strategy Manager and Debt Manager software systems;
- implementation of Experian's Hunter system (antifraud);
- implementation of Experian's Scoring system (Strategy Manager)
- implementation of Experian's Behaviour Score system; and
- integration of the Alfa Banking Group's systems with some national credit bureaus including Experian Interfax and the National Bureau of Credit Histories.

Business Continuity and Disaster Recovery

Alfa Banking Group continues to make considerable investments in disaster recovery infrastructure in order to ensure continuity of its operations in the event of any technological system failure. The IT and business departments have developed business continuity plans, which are detailed action plans to ensure the execution of

critical processes and operations in case of IT systems failure. In addition, Alfa Banking Group has created redundant mission critical systems, which are housed in a location separate from the primary systems.

Retail Business Information Technologies

Alfa Banking Group has a strong focus on further expansion of remote services for retail clients and on becoming the leader in the Russian market not only in e-banking services, but in the entire area of internet payments. Alfa Banking Group has already deployed e-invoicing, launched virtual cards and integration with the "Gorod" system (regional utility payments) to support regional expansion of the retail business and many other functionalities. The number of internet-banking service is being increased on a continual basis. Alfa Banking Group plans to launch a new generation of internet-banking system for retail clients, offering a new standard for financial services as well as new architecture, based on the Web 2.0 paradigm.

Alfa Banking Group has initiated the implementation of industrial customer relationship management ("**CRM**") system, which it believes will improve its client service and further focus on being a client-oriented business. The CRM programme implementation is divided into four projects: DWH (data warehouse), Operational CRM, Analytical CRM and Call Centre. The Analytical CRM project was successfully rolled out in the beginning of 2011, which resulted in the Alfa Banking Group's secondary sales activities being conducted in a more targeted way and allowing more control over the sales process.

In 2010, the Alfa Banking Group completed the implementation of a front-office software based on SOA architecture (service-oriented architecture) that allows the Alfa Banking Group to provide quicker customer service and which removes limitations on the number of branches it can support.

Research Management Programme

In 2010, the Alfa Banking Group launched its Research Management Programme, which is an end-to-end solution for complex financial documentation that needs to be produced and delivered in a time sensitive environment. This programme is most commonly used for financial research as well institutional investor reporting and brokerage activities.

Obligations to the European regulators (MiFID Programme)

In 2009, the Alfa Banking Group completed its MiFID Programme, which allowed all information systems of European branches of the Alfa Banking Group to be adjusted to meet the requirements of local regulators (e.g., CySEC and FSA).

Tax Reporting programme

In 2009-2010, to respond to the changes in the Russian tax legislation, the Alfa Banking Group developed a "Tax Reporting" programme, which is an end-to-end solution for the calculation of taxes and preparation of tax reports for the Russian Federal Tax Service. This programme is used for the calculation of taxes with respect to all operations of the Alfa Banking Group with securities and loans.

Kondor Global Risk

In 2010, the Alfa Banking Group implemented the first two phases of the Kondor Global Risk system, which provides a unified solution for calculating the limits and risk controls over the Alfa Banking Group's operations. The Alfa Banking Group plans to complete the implementation of the Kondor Global Risk system in 2011.

Focus DMT 2.0 Front-office & Risk Management Programme

In 2010, the Alfa Banking Group launched version 2.0 of the Focus DMT programme, which is a solution for trading and risk-management. The new version allows the Alfa Banking Group to make a complicated OTC deals and receive pre- and post-trading analytical reports.

Kondor+\Radius

In 2008, the Alfa Banking Group implemented Kondor+\Radius, which is a front-office system for trading equities and derivatives.

Credit Scoring System

In 2010, the Alfa Banking Group developed and implemented a new information system, Credit Scoring System, which allows to prepare qualitative analysis of borrower's financial condition, prepare a credit risk assessment of a borrower and monitor borrower's financial performance. The new Credit Scoring System replaced the old inefficient software, Credit Request. By the beginning of 2011, the Credit Scoring System was implemented not only in the main office of the Alfa Banking Group but also in all the regional branches.

Employees

As at 31 December 2010, the Alfa Banking Group had 15,349 employees, a 14.6% increase from the 13,392 employees as at 31 December 2009, which in turn, was a 7.8% decrease from the 14,866 employees as at 31 December 2008. As at 31 December 2010, 6,272 employees were located in Moscow, 8,981 employees were located elsewhere in the Russian Federation and 120 were located outside the Russian Federation. Staff costs accounted for 58.0% of the Alfa Banking Group’s operating expenses in 2010, as compared to 51.9% and 52.9% in 2009 and 2008, respectively.

The Russian market for qualified financial institutions personnel, especially for junior and middle management, is highly competitive. See "*Risk Factors—Risks Relating to the Alfa Banking Group’s Business and Industry—The Alfa Banking Group may be unable to recruit or retain experienced and/or qualified personnel*". The Alfa Banking Group cooperates with a number of leading Russian universities to attract top tier graduates to ensure the Alfa Banking Group’s competitiveness in the future and provides competitive compensation.

The Alfa Banking Group has also introduced financial incentives to minimise staff turnover and to encourage its staff to be results-driven. These include sales incentive programmes (primarily for retail unit employees) and annual performance bonuses based on achievement in relation to key performance indicators. Long-term incentive programmes include long-term contracts and "shadow" stock option packages for key employees. The compensation and benefits department closely monitors the regional labour markets and develops financial incentives, based upon international best practices, which measure both short- and long-term performance in order to maintain a competitive level of employee compensation.

Property

With the exception of several buildings and premises in central Moscow as well as certain properties in the regions, the Alfa Banking Group leases its corporate headquarters as well as substantially all of the space of its existing branch locations. These leases generally have terms of three to five years and contain options to extend. See "*Retail Banking — Alfa Bank retail branches*". The Alfa Banking Group expects that most of its future branch locations will also occupy leased properties. (See also "*Operating and Financial Review of the Alfa Banking Group—Contingencies, Commitments and Derivative Financial Instruments—Operating Lease Commitments*").

Litigation

Other than as set out in this section ("*Description of the Alfa Banking Group - Litigation*"), there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Alfa Banking Group is aware) during the 12 months immediately preceding this document which may have, or have had in the recent past, significant effects on the Alfa Banking Group, ABH Financial or Alfa Bank's financial position or profitability.

In September 2010, the Krasnodar Region branch of the Department of Consumer Protection of Russia (*Rospotrebnadzor*) (the "**Department**") found Alfa Bank in violation of the consumer protection laws and issued a directive ordering Alfa Bank to fix the violation (the "**First Directive**"). The nature of the alleged violation of

consumers' rights was the inclusion by Alfa Bank of a forum selection clause in its consumer loan agreement form, which had the effect of consumers consenting to the adjudication of potential disputes by a court in the City of Moscow. Alfa Bank complied with the First Directive by amending its forum selection clause. However, the Department considered these amendments to be insufficient to comply with the First Directive. As a result, in November 2010 the Department issued the second directive (the "**Second Directive**") urging Alfa Bank to comply with the First Directive. Subsequently, the Department filed a complaint against Alfa Bank with a district court in Krasnodar for failure to comply with the Second Directive .

In January 2011, while the hearing with respect to the Second Directive was pending, the Department issued another directive (the "**Third Directive**"), which ordered Alfa Bank and its Chairman of the Executive Board, Mr Khvesyuk, to comply with the prior directives. Subsequently, the Department commenced an inspection of Alfa Bank's Krasnodar Region branch. Based on the results of the inspection, the Department established that Alfa Bank was not in compliance with the prior directives.

In February 2011, the judge in Krasnodar found the Second Directive to be illegal and dismissed the case against Alfa Bank.

In March 2011, based on the results of the January inspection and the failure of Alfa Bank and Mr. Khvesyuk to comply with the Third Directive, the Department filed a claim with a district court in Krasnodar seeking to disqualify Mr. Khvesyuk from his current position as the Chairman of the Executive Board for a repeated failure to comply with the orders of a governmental agency. Alfa Bank filed a motion to remove the case against Mr. Khvesyuk from Krasnodar to a court in the Moscow Region where Mr. Khvesyuk resides, which motion was granted. The new hearing date has not been scheduled yet.

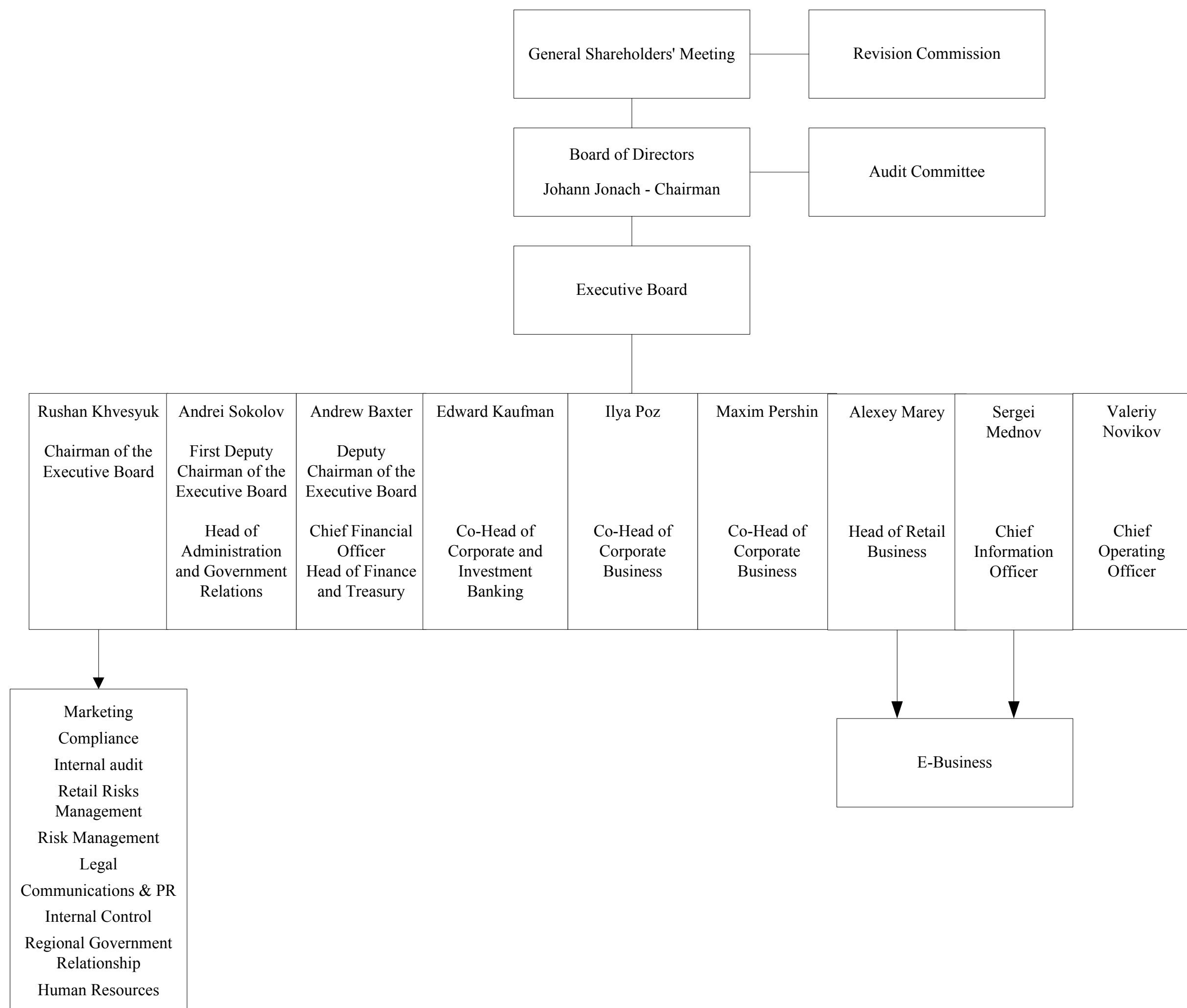
Alfa Bank intends to defend Mr. Khvesyuk vigorously and believes that the case should be dismissed on procedural grounds similar to those in the case against Alfa Bank in January 2011. Nevertheless, should the court disqualify Mr. Khvesyuk from his position as the Chairman of the Executive Board, this could affect Alfa Bank's operations, although as at the date of this Prospectus it is not possible to accurately quantify what effect, if any, this could have on the financial position or profitability of Alfa Bank, ABH Financial or the Alfa Banking Group.

Management

Alfa Bank

In line with other Russian banks, Alfa Bank is managed through a multi-tier system of governing bodies comprised of the General Shareholders' Meeting, the Board of Directors, the Executive Board and the Chairman of the Executive Board.

The following chart shows Alfa Bank's organisational structure as at the date of this Prospectus:



The General Shareholders' Meeting is the highest governing body of Alfa Bank. The shareholders elect the Board of Directors at the General Shareholders' Meeting, which is responsible for the general management of Alfa Bank, including coordination of its overall strategy and general supervision. The Board of Directors appoints members of the Executive Board, which is the collective executive body of Alfa Bank, and the Chairman of the Executive Board, who oversees the Executive Board. Day-to-day activities of Alfa Bank are overseen by the Chairman of the Executive Board and the Executive Board. Certain powers are delegated by the Chairman of the Executive Board to his or her deputies, members of the Executive Board, department heads and various committees. A brief description of each of the General Shareholders' Meeting, the Board of Directors, the Executive Board and the Chairman of the Executive Board is set out below.

General Shareholders' Meeting

The shareholders of Alfa Bank, through actions taken at the General Shareholders' Meeting, are the highest governing body of Alfa Bank. The powers of the shareholders at the General Shareholders' Meeting are set forth in the Joint-Stock Companies Law, Alfa Bank's charter and Alfa Bank's internal Regulations of the General Meeting of the Shareholders. General Shareholders' Meetings are convened at least once a year pursuant to the Joint-Stock Companies Law, Alfa Bank's charter and internal Regulations of the General Meeting of the Shareholders. Within the competence of the General Shareholders' Meeting are corporate actions such as the following:

- amendments to Alfa Bank's charter;
- reorganisation or liquidation of Alfa Bank, appointment of a commission to liquidate Alfa Bank and approval of preliminary and final liquidation balances;
- determination of the number of members of the Board of Directors, election and removal of members of the Board of Directors;
- determination of the number, the nominal value and the class/type of authorised shares and the rights granted by such shares;
- changes in Alfa Bank's share capital;
- appointment and removal of the members of Alfa Bank's Revision Commission;
- approval of Alfa Bank's external auditor;
- approval of Alfa Bank's annual reports and financial statements;
- approval of certain interested-party transactions and major transactions;
- distribution of profits;
- splits or consolidation of Alfa Bank's shares;
- redemption by Alfa Bank of issued shares in circumstances contemplated by Russian legislation;
- approval of Alfa Bank's participation in holding companies, financial and industrial groups, associations and other groups of commercial organisations; and
- approval of certain internal documents of Alfa Bank's governing bodies.

Corporate decisions proposed at the General Shareholders' Meeting generally are adopted by a simple majority of shareholders holding voting shares present at the meeting (subject to a minimum quorum requirement of the presence of shareholders holding at least 50% plus one share of the placed voting shares of Alfa Bank). However, pursuant to the Joint-Stock Companies Law, the following decisions must be approved by a three-quarters majority vote of the voting shares present at the General Shareholders' Meeting of Alfa Bank:

- amendments to Alfa Bank's charter;
- reorganisation or liquidation of Alfa Bank, appointment of a commission to liquidate Alfa Bank and approval of preliminary and final liquidation balances;
- major transactions involving assets in excess of 50% of the balance sheet value of the assets of Alfa Bank;
- determination of the number, the nominal value and the class/type of authorised shares and the rights granted by such shares;
- redemption by Alfa Bank of its issued shares;
- any issuance of shares or securities convertible into ordinary shares by closed subscription; and

- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case constituting more than 25% of the number of issued ordinary shares.

The annual General Shareholders' Meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and its agenda must include the following items:

- determination of the number of and the election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and the profit and loss statement of Alfa Bank;
- approval of the distribution of profits, including approval of annual dividends, if any;
- approval of an external auditor; and
- appointment of the members of Alfa Bank's Revision Commission.

Board of Directors

The Board of Directors is responsible for matters of general management, with the exception of those matters that are within the exclusive authority of the General Shareholders' Meeting. The activities of the Board of Directors are carried out in accordance with Alfa Bank's charter, Alfa Bank's internal Regulations of the Board of Directors and applicable law. The Board of Directors meets as often as necessary and exercises exclusive authority over certain matters. Such matters include, for example:

- determination of Alfa Bank's business priorities;
- convening of annual and extraordinary General Shareholders' Meetings, with certain exceptions specified in the Joint-Stock Companies Law;
- approval of the agenda of a General Shareholders' Meeting, determination of the record date for shareholders entitled to participate in a shareholders' meeting and other issues in connection with, preparation for and holding of General Shareholders' Meetings;
- determination of the price of Alfa Bank's property and of its securities to be placed or repurchased, as provided for by the Joint-Stock Companies Law;
- repurchase of Alfa Bank's shares, bonds and other securities in certain circumstances provided for by the Joint-Stock Companies Law;
- determination of the number of members of the Executive Board, election and removal of the Chairman of the Executive Board and members of the Executive Board;
- recommendations on the amount of remuneration to be paid to members of Alfa Bank's Revision Commission and on the fees payable for the services of an external auditor;
- recommendations on the amount of dividends on shares and the payment procedure therefor;
- the use of Alfa Bank's reserve fund and other funds;
- approval of Alfa Bank's internal documents, except for those documents the approval of which fall within the competence of its shareholders or other governing bodies;
- the establishment of branches and representative offices;
- approval of major and interested-party transactions in the circumstances contemplated by the Joint-Stock Companies Law;
- establishment of internal control system;

- approval of certain credit facilities that exceed established limits;
- appointment of Alfa Bank's share registrar, approval of the terms of the agreement with the registrar and termination of the agreement with the registrar; and
- approval of the annual financial and economic plan of Alfa Bank.

According to the Joint-Stock Companies Law, the election of the Board of Directors at the General Shareholders' Meeting must be conducted through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of members of Alfa Bank's Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote at a General Shareholders' Meeting.

According to the Joint-Stock Companies Law, members of the Executive Board may not comprise more than a quarter of the members of the Board of Directors.

Alfa Bank's charter provides that its Board of Directors should consist of not less than five members. Currently, there are eleven members of Alfa Bank's Board of Directors.

On 27 February 2006, Alfa Bank held an Extraordinary General Shareholders' Meeting where, as part of a continuing effort to improve corporate governance, changes were made to the composition of the Board of Directors to reduce the number of shareholders represented on the Board of Directors and to more closely align the members of the Executive Board with the heads of business and operational departments.

The name, position and certain other information for each current member of the Board of Directors of Alfa Bank are set forth below.

The Board of Directors of Alfa Bank consists of:

Name	**Position**
Johann Jonach	Chairman
Oleg Sysuev	First Deputy Chairman
Peter Aven	Member of the Board of Directors, President of Alfa Bank
Mikhail Fridman	Member of the Board of Directors, Chairman of the Supervisory Board of Alfa Group Consortium
Ildar Karimov	Member of the Board of Directors
Rushan Khvesyuk	Member of the Board of Directors, Chairman of the Executive Board
Alex Knaster	Member of the Board of Directors
Andrei Kosogov	Member of the Board of Directors
Alexander Lukanov	Member of the Board of Directors
Petr Smida	Member of the Board of Directors
Nikolay Kosov	Member of the Board of Directors

The business address of Messrs. Fridman, Sysuev, Jonach and Aven is 9 Mashy Poryvaevoy Street, 107078, Moscow, Russia. The business address of Mr. Lukanov is 7 Mashy Poryvaevoy Street, 107078, Moscow, Russia. The business address of Mr. Karimov is 11 Mashy Poryvaevoy Street, 107078, Moscow, Russia. The business address of Messrs. Smida, Khvesyuk, Knaster and Kosogov is 27 Kalanchevskaya Street, 107078, Moscow, Russia. The business address of Mr. Kosov is 9 Akad. Sakharova Prospekt, 107996, Moscow, Russia.

A brief biographical description of the members of Alfa Bank's Board of Directors is set out below.

Mr. Johann Jonach

Johann Jonach graduated from the University of Economics, Vienna in 1986 with an MBA in International Trade. Before joining Alfa Bank in 2008, Mr. Jonach worked as President of Alfa Capital, Ukraine from 1997 to 1998. In 1999, Mr. Jonach became a member of the Managing Board of Raiffeisenbank Ukraine, where he was responsible for corporate banking. Mr. Jonach played a significant role in Raiffeisen Group's successful development in Eastern Europe and worked in many countries of the region. From 2000 to 2002, he worked as Chairman of the Managing Board of Raiffeisenbank Bulgaria. From 2003 to 2005, Mr. Jonach worked in Ukraine as Deputy Chairman of the Managing Board of Raiffeisenbank Ukraine and took over as Chairman of the Managing Board of ZAO Raiffeisenbank, the Russian subsidiary of Raiffeisen International Bank-Holding AG in the beginning of 2006. Mr. Jonach is the Head of the Alfa Banking Group and, as the Banking Group's CEO, he is in charge of banks in Russia, Ukraine, the Netherlands, Kazakhstan and Belorussia. Mr. Jonach is a fluent Russian speaker and he also speaks German, English, Bulgarian and Spanish.

Mr. Oleg Sysuev

Born in 1953 in Samara, Russia, Oleg Sysuev graduated from the Kuibyshev Aviation Institute (Samara) in 1976. Formerly, he worked as the First Deputy Head of the Administration of the President of the Russian Federation from 1998 to 1999, Vice-Premier of the Government and Minister of Labour and Social Development from 1997 to 1998, and Mayor of Samara City from 1992 to 1997. He was appointed to Alfa Bank's Board of Directors in 1999. In addition to his role at Alfa Bank, Mr. Sysuev is President of the Board of the Congress of Municipalities of Russia (since April 2000), a member of the Presidential Council for Local Government and Deputy Chairman of the Presidential Committee for Literature and the Arts. He has published numerous articles on the structures of post-Soviet Russia.

Mr. Peter Aven

Born in 1955 in Moscow, Peter Aven received a Ph.D. in Economics in 1980 from Moscow State University. Mr. Aven has served as President of Alfa Bank since 1994, and as such is responsible for Alfa Bank's overall strategy and for relations with business and government leaders in Russia and abroad. Prior to joining Alfa Bank, Mr. Aven was Minister of Foreign Economic Relations for the Russian Federation between 1991 and 1992. An economist by training, Mr. Aven spent several years at the International Institute for Applied Systems Analysis in Laxenburg, Austria (1989-1991). In addition to his role at Alfa Bank, Mr. Aven is Chairman of the Board of Directors of AlfaStrakhovanie, Co-Chairman of the Board of Directors of CTC Media and Member of the Board of Directors of Golden Telecom. He is a trustee of the Board of the Russian Economic School and a member of the Board of the Russian Union of Industrialists and Entrepreneurs. Mr. Aven is also a member of the Board of the Competitiveness and Entrepreneurship Council of the Government and a trustee of the Board of the Association for National Financial Reporting Standards. In 2007, Mr. Aven became Chairman of the Russia-Latvia Business Council. He acts as a trustee for the Centre for Economic Policy Research, and for the Eisenhower Fellowships, and is also a professor at the State University-Higher School of Economics.

Mr. Mikhail Fridman

Born in 1964 in Lvov, Ukraine, Mikhail Fridman graduated from Moscow University of Alloys and Steel in 1986 with an MS in Engineering. Mr. Fridman is the Chairman of the Supervisory Board and a principal founder of the Alfa Consortium. Mr. Fridman served as the Chairman of the Board of Directors of Alfa Bank from 1998 until Mr. Jonach succeeded him. In addition to his role with Alfa Bank, Mr. Fridman also serves as member of the Board of Directors of VimpelCom. In November 2005, Mikhail Fridman was elected to Russia's Public Chamber, which comprises business and social leaders who have made significant contributions to Russia. It oversees official bodies and also reviews and advises on legislative initiatives undertaken by the Government. Mr. Fridman also acts as a Member of the International Advisory Board of the Council on Foreign Relations.

Mr. Ildar Karimov

Born in 1961 in Izhevsk, Ildar Karimov holds a Ph.D. in Mathematical Economics (1986) and a Diploma with honours from Moscow State University (1983). Before joining Alfa Bank in 1994, Mr. Karimov worked as a researcher with the International Institute of Applied Analysis in Laxenburg, Austria, and at the Central Economic and Mathematics Institute in Russia. Mr. Karimov served as a Deputy Chairman of the Executive Board of Alfa Bank until his election to the Board of Directors on 27 February 2006. Mr. Karimov is responsible for relations with shareholders, strategic investors and partners of Alfa Bank, as well as interaction with the Alfa Consortium. Mr. Karimov is a member of the Investment Committee of Alfa Capital Partners, a member of the Board of Directors of AlfaStrakhovanie, and a member of the Board of Directors of Alfa Asset Management.

Mr. Rushan Khvesyuk

Born in 1969 in Zagorsk Moscow Region, Rushan Khvesyuk graduated from the Moscow State Academy of Law in 1994. From 1995 until 2002, he headed Alfa Bank's legal department. Since 2002, he has served as the Chairman of the Executive Board of Alfa Bank and became a member of the Board of Directors on 27 February 2006. In 2001, the Russian magazine Career named Mr. Khvesyuk as one of the 50 best Russian corporate lawyers. In 2006, Mr. Khvesyuk was named the "Best Banker in Russia" in an all-Russian competition established by the Accounts Chamber of the Russian Federation and the Association of Russian Banks. Mr. Khvesyuk is Chairman of the Executive Board and a Member of the Board of Directors and represents Alfa Bank in dealings with the Government and the CBR and is responsible for Alfa Bank's administrative and legal divisions.

Mr. Alex Knaster

Born in 1959 in Moscow, Alex Knaster holds a Ph.D. degree in Economics from the Russian Academy of Science, an MBA from Harvard Business School and a B.S. in Electrical Engineering and Mathematics from Carnegie-Mellon University. He is a Chartered Financial Analyst. Mr. Knaster is the Chairman and CEO of Pamplona Capital Management and, prior to founding Pamplona, served as Chief Executive Officer of Alfa Bank from 1998 to 2004. He also served as General Director of Sidanco, a major Russian oil company, from 2002 to 2003. From 1995 to 1998, Mr. Knaster was President and CEO of Credit Suisse First Boston (Moscow). In this position he was responsible for the firm's operations in Russia and the CIS. From 1985 to 1995, he worked as a Managing Director of Deutsche Morgan Grenfell, Bankers Trust Company and Simmons & Company. He also worked at Schlumberger Ltd for a number of years as an engineer on oil rigs in the Gulf of Mexico. Mr. Knaster is a Member of the Board of Directors of TNK-BP, several other Alfa Consortium companies and of Nabors Industries (NYSE).

Mr. Andrei Kosogov

Born in 1961 in Sillamae, Estonia, Andrei Kosogov graduated from the Moscow Energy Institute in 1987. He began his career in banking in 1992 as Chairman of the Board of Directors and CEO of Alfa Capital, an investment company that merged with Alfa Bank in 1998. From 1992 to 1995, he was Chairman of Alfa Capital Investment Fund, a forerunner of Alfa Bank's mutual fund. From 2001 until 2005, he was First Deputy Chairman of the Executive Board of Alfa Bank with responsibility for investment activities and asset management. Since November 2005, Mr. Kosogov has served as Chairman of the Board of Directors of Alfa Asset Management and Altimo and since 2003 has been Chairman of the Board of Directors of AlfaStrakhovanie. He serves as Member of the Investment Committee of Alfa Capital Partners and has been a member of the Supervisory Board of Kyivstar since July 2002.

Mr. Alexander Lukanov

Born in 1962 in Moscow, Alexander Lukanov graduated from the Moscow Power Engineering Institute (Technical University) in 1986. Prior to joining Alfa Bank in 1995 as Head of its Credit Division, he held a researcher position at the Moscow Power Engineering Institute and later served as Chairman of the Executive Board of one of the first venture capital funds in Russia, SPF Kontakt XXI. From 1999 to 2005, Mr. Lukanov was Head of Corporate Banking and Deputy Chairman of the Board of Directors of Alfa Bank, managing Alfa Bank's branch

network, including foreign subsidiaries in CIS countries. In addition, during this period he was also Member of the Board of CJSC "Trade House Perekryostok" and a Member of the Board of Directors of AlfaStrakhovanie. He is a member of the Executive Board of Alfa-Bank Ukraine.

Mr. Petr Smida

Mr. Smida is a private entrepreneur based in Prague and currently serves as an independent member of the Board of Directors of Alfa Bank. Born in 1963 in Mestec Kralove, Czech Republic, Petr Smida graduated from the University of Economics in Prague in 1988. Before joining Alfa Bank in 2003, he was the Chairman and CEO at GE Capital Bank, Prague and Senior Vice-President at GE Consumer Finance, USA. Mr. Smida served as Deputy Chairman of the Board of Directors of Alfa Bank between 2003 and 2008 and as Chief Executive Officer of Alfa Bank between 2004 and 2007. Mr. Smida served as Chairman of the Board of Directors of Alfa Bank from February 2008 to November 2008.

Mr. Nikolay Kosov

Born in 1955 in Moscow, Nikolay Kosov graduated from the Moscow State Institute of International Relations in 1977, specializing in International Relations. In 2000, he graduated from the Finance Academy under the auspices of Government of the Russian Federation, specializing in World Economics and holds a Ph.D. in Economics. Mr. Kosov was First Deputy Chairman, Vnesheconombank of the USSR form 1998 to 2007. From 1993 to 1998, he was First Deputy Director General, Director General of the All-Russian Automobile Alliance. Since 2007 Mr. Kosov has been a member of the Management Board and First Deputy Chairman of the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank). Since 2004, he has been the Chairman of CJSC Roseximbank Board of Directors. Since 2006, he has sat on the board of OJSC National Trade Bank and since 2008 has sat on the board of OJSC Russian Railways.

Executive Board and Chairman of the Executive Board

The day-to-day management of Alfa Bank is carried out by the Executive Board and the Chairman of the Executive Board of Alfa Bank.

Together with the Executive Board, the Chairman of the Executive Board is responsible for implementing decisions of the General Shareholders' Meeting and the Board of Directors. The Chairman of the Executive Board is authorised, among other things, to act on behalf of Alfa Bank without any express grant of authority, to dispose of Alfa Bank's property in accordance with Alfa Bank's charter, to determine the guidelines of the internal audit and control systems in Alfa Bank and to issue internal orders concerning Alfa Bank's day-to-day operations. The Members of the Executive Board are elected by the Board of Directors for a term of two years. On 23 June 2009, the Board of Directors re-elected Mr. Rushan Khvesyuk as the Chairman of the Executive Board of Alfa Bank.

The Executive Board is Alfa Bank's collective executive body. Its activities are coordinated by the Chairman of the Executive Board and are regulated by applicable Russian law, Alfa Bank's charter and internal Regulations of the Executive Board. The Executive Board meets at least weekly and makes its decisions by a simple majority vote (subject to a quorum requirement of one-half of its members).

Functions that are not allocated to the General Shareholders' Meeting, the Board of Directors or the Chairman of the Executive Board remain within the purview of the Executive Board. In particular, the Executive Board is charged, among other things, with the following functions:

- developing principles for Alfa Bank's day-to-day management;
- implementing decisions taken by Alfa Bank's shareholders and the Board of Directors;
- determination of Alfa Bank's personnel policy and control over implementation thereof;
- procuring Alfa Bank's compliance with law;

- determination of risk management and profit maximisation policy;
- determination and approval of limits and terms of Alfa Bank's lending;
- approving instructions, rules, regulations and other internal documents, including (without limitation) credit, accounting, marketing, labour, financing and other policies, except for those that are within the responsibility of other governing bodies of Alfa Bank; and
- functions not delegated to Alfa Bank's shareholders or the Board of Directors.

Currently, the Executive Board has nine members. The name, position and certain other information for each member of the Executive Board are set out below.

Name	Position
Rushan Khvesyuk	Chairman of the Executive Board and Member of the Board of Directors
Andrei Sokolov	First Deputy Chairman of the Executive Board, Head of Administration and Government Relations
Andrew Baxter	Deputy Chairman of the Executive Board, Chief Financial Officer, Head of Finance and Treasury
Edward Kaufman	Member of the Executive Board, Co-Head of Corporate-Investment Banking
Alexey Marey	Member of the Executive Board, Head of Retail Business
Sergei Mednov	Member of the Executive Board, Chief Information Officer
Valeriy Novikov	Member of the Executive Board, Chief Operating Officer
Ilya Poz	Member of the Executive Board, Co-Head of Corporate Business
Maxim Pershin	Member of the Executive Board, Co-Head of Corporate Business

The business address of Messrs. Sokolov, Mednov, Baxter and Marey is 7 Mashy Poryvaevoy Street, 107078, Moscow, Russia. The business address of Messrs. Khvesyuk, Poz, Pershin, Novikov and Kaufman is 12 Acad. Sakharova Prospect, 107078, Moscow, Russia.

A brief biographical description of those members of Alfa Bank's Executive Board who are not also members of the Board of Directors is set forth below.

Mr. Andrei Sokolov

Born in 1955 in Moscow, Andrei Sokolov graduated from Moscow State University with a degree in Mathematics in 1977. Prior to joining Alfa Bank, Mr. Sokolov was Chairman of the Board of RESO-Garantia, the Deputy Chairman of the Board of Directors of MDM Commercial Bank and the Deputy Chairman of the Board of Konversbank. Mr. Sokolov was appointed First Deputy Chairman of the Executive Board of Alfa Bank in July 2007. Before that, he served as Deputy Chairman of the Executive Board of Alfa Bank (2003-2007). He is responsible for dealings with the Government, Judicial and Legislative Authorities and for Alfa Bank's participation in the implementation of government programmes. In addition, Mr. Sokolov oversees Alfa Bank's administrative block.

Mr. Andrew Baxter

Born in 1966 in South Africa, Andrew Baxter graduated from the University of the Witwatersrand (Johannesburg) in 1988 with Bachelor's degrees in Commerce and Accountancy. He later qualified as a Chartered Accountant (S.A.), having passed the South African Institute of Chartered Accountants' final qualifying examination and completed his Articles of Clerkship with Deloitte & Touche in December 1990. Before joining Alfa Bank in 2005,

Mr. Baxter worked at the SUN Group. Initially employed in 1999 as CFO of one of SUN's portfolio companies, he was promoted to CFO of SUN Capital in 2000 and soon thereafter to manage the Moscow office of the SUN Group. Prior to his work with the SUN Group, he worked at Renaissance Capital, The US Russia Investment Fund, CS First Boston and Deloitte & Touche, all based either in Moscow or Johannesburg. Mr. Baxter has been a Chief Financial Officer of Alfa Bank since 2005. His primary areas of responsibility are finance, treasury and investor relations.

Mr. Edward Kaufman

Born in 1965 in Philadelphia, Edward Kaufman graduated from Duke University in 1987 (BA, Majors in Political Science and Russian Language), has a MA from the University of Pennsylvania (1992) and a MBA from the Wharton School, the University of Pennsylvania (1992) in Finance and Strategic Planning. Mr. Kaufman joined Alfa Bank as the Head of Investment Banking in March 2007 and was promoted to the position of the Co-Head of Corporate and Investment Banking in March 2009. Prior to joining Alfa Bank, Mr. Kaufman worked for four years with UBS as Managing Director and Head of Investment Banking in Russia and the CIS. Previously Mr. Kaufman worked for six years with Salomon Smith Barney holding various executive positions in its London and Moscow offices. Mr. Kaufman is one of the longest serving investment bankers in the Russian market and his clients have included the Government, the governments of Moscow and St. Petersburg, Gazprom, Sberbank, Norilsk Nickel, Sibneft, TNK-BP, Sistema Group, NLMK and VimpelCom, as well as many other domestic and foreign companies.

Mr. Alexey Marey

Born in 1977 in Moscow, Alexey Marey graduated with honours from Moscow Aviation Institute's Economics Department in 1999. Mr. Marey joined Alfa Bank in September 2004, as Head of Retail Sales and Customer Relations in Moscow. Before joining Alfa Bank, he was a business development manager and regional sales manager at Danone from 1999 to 2004. Prior to his time with Danone, he worked at Gillette International (Moscow) in the areas of logistics, customer service and sales (1998-1999) and as a logistics manager at Duracell Batteries N. V. (1996-1998). Mr. Marey was appointed Head of Retail Business of Alfa Bank in April 2007. He is responsible for the Bank's retail business in Moscow and the regions.

Mr. Sergei Mednov

Born in 1966 in Moscow, Sergei Mednov graduated from Moscow Aircraft Engineering Institute, specialising in Computer Science, and from the Russian Academy of Economics, where he specialised in finance. He has an MBA degree from Moscow International Higher Business School (MIRBIS). Mr. Mednov joined Alfa Bank in 2000 from Probusinessbank where he was Deputy Chairman of the Board for IT (1997-2000). Prior to that, Mr. Mednov spent three years as Deputy Chairman of the Board for IT at Montazhspetsbank (1994-1997). Mr. Mednov is responsible for Alfa Bank's IT systems development strategy, the operational management of IT business units and the supervision of IT implementation projects.

Mr. Valeriy Novikov

Valeriy Novikov graduated from the Moscow Institute of Physics and Technology in 1982 where he specialised in automation and information devices. In 1997, he graduated from the Academy of Finance (banking). Mr. Novikov holds a PhD degree in physics and mathematics. Before joining Alfa Bank, from 1994 to 2000 Mr. Novikov was the Main Processing Center Deputy Director and Deputy IT Director in Sberbank. From 2000 to 2001, Mr. Novikov was the IT Director at Troika Dialog. He joined Alfa Bank in 2001 and now acts as Chief Operating Officer and oversees the development of the Bank's projects and operational processes.

Mr. Ilya Poz

Born in 1977 in Siberia, Ilya Poz graduated from Omsk State University in 2000 where he studied management. Mr. Poz joined Alfa Bank in 2008 as Director for Corporate Lending and was responsible for the Bank's volume and quality of loans and advances to corporate customers. At present, Mr. Poz is a Co-head of Corporate Business.

He is responsible for the majority of the corporate banking credit line, the medium and regional corporate business and the mass business. Since August 2010, Mr Poz has been a member of Alfa Bank's Executive Board.

Mr. Maxim Pershin

Maxim Pershin graduated from the Higher Institute of Management with a degree in jurisprudence and the Moscow State University of Geography and Cartography as a qualified manager-engineer. Mr. Pershin joined Alfa Bank in 1998 where he acted as head of Alfa Bank's Moscow retail branches until 2001. From 2002 to 2006, Mr. Pershin worked at MDM Bank where he was a head of the construction industry department. In 2006, Mr. Pershin again joined Alfa Bank as a head of the business development division of corporate and investment banking. In 2010, Mr Pershin was appointed Co-head of Corporate Business where he is responsible for relations with major corporate clients and Moscow region clients, the settlement business, problem debts and special projects.

Supervisory Bodies

In addition to the managerial bodies described above, Alfa Bank has various supervisory bodies to facilitate corporate governance, including the Revision Commission and the Audit Committee.

Revision Commission

The Revision Commission is a supervisory body established pursuant to the requirements of Russian legislation and Alfa Bank's charter that facilitates shareholder control over financial and business activities, as well as management. As a rule, such control is limited to an annual review of the results of activities. A positive opinion of the Revision Commission is required for the annual General Shareholders' Meeting to approve the balance sheet and income statements.

The Revision Commission consists of three members who are elected annually by the annual General Shareholders' Meeting. The members of the Revision Commission are independent in their activities and report only to the shareholders. Members of the Revision Commission may not simultaneously serve as members of the Board of Directors. The current members of the Revision Commission are Ms. Galina Kulakova, Mr. Boris Meerson and Mr. Andrey Gusev. The business address of the members of the Revision Commission is 7 Mashy Poryvaevoy Street, 107078, Moscow, Russia.

Audit Committee

Internal control is a process performed by the Board of Directors, Executive Board and other Alfa Bank employees to provide reasonable assurance regarding the reliability of financial reporting, safeguarding of assets, effectiveness and efficiency of operations and compliance with applicable laws, regulations, internal policies and procedures.

The key element in Alfa Bank's internal control system is the Audit Committee, which reports to the Board of Directors at least once a year. The Audit Committee consists of three members who are elected by the Board of Directors of Alfa-Finance. The current members of the Audit Committee are Mr. Ildar Karimov, Mr. David Gould and Ms. Anna Kaminskaya.

The primary function of the Audit Committee is to assist the Board of Directors in overseeing internal audit processes, reviewing financial reports, monitoring quality assurance of corporate governance and maintaining effective corporate control. The Audit Committee has the authority to conduct any investigation it deems necessary or appropriate in order to fulfil its duties. The Audit Committee has unrestricted access to the independent public auditors, the internal audit department, and anyone else within the Alfa Banking Group, and may require any officer or employee or independent auditors to attend a meeting with the Audit Committee or with any members of, or consultants or advisors to, the Audit Committee.

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the management or supervisory bodies of Alfa Bank towards the Issuer, Alfa Bank and/or ABH Financial and their private interests and/or other duties.

For discussion of ABH Financial's management see "*ABH Financial*".

Ownership

Overview

As at the date of this Prospectus, ABH Holdings S.A., a company incorporated under the laws of the Grand-Duch¸ of Luxembourg, is the sole shareholder of ABH Russia Limited, a company organised under the laws of the Republic of Cyprus, which is the sole shareholder of ABH Financial, a company incorporated in the Republic of Cyprus, which in turn is the sole shareholder of OJSC AB Holding, a Russian joint-stock company, and a shareholder of Alfa Capital Holdings (Cyprus) Limited, a company incorporated in the Republic of Cyprus, which together with OJSC AB Holding own 100% of Alfa Bank's outstanding shares.

ABH Holdings S.A.

As at the date of this Prospectus, the authorised share capital of ABH Holdings S.A. is U.S.$388,705.60, comprising 38,870,560 ordinary registered shares with a nominal value of U.S.$0.01 each, of which 38,870,560 fully-paid shares have been issued. See "*Description of the Alfa Banking Group – Alfa Consortium*".

ABH Russia Ltd.

ABH Holdings S.A. is the sole shareholder of ABH Russia Ltd., a company incorporated in Cyprus. As of 31 December 2010, the share capital of ABH Russia Ltd. was U.S.$2,465 in ordinary registered shares with a nominal value of U.S.$1.00 each.

Shareholder	**Number of Ordinary Shares**	**Nominal Value Per Share**	**%**
		(U.S.$)	
ABH Holdings S.A	2,465	1.00	100.00

ABH Financial

As at 31 December 2010, the share capital of ABH Financial is U.S.$1,264,800,000 in ordinary registered shares with a nominal value of U.S.$1.00 each.

Shareholder	**Number of Ordinary Shares**	**Nominal Value Per Share**	**%**
		(U.S.$)	
ABH Russia Limited..	1,264,800,000	1.00	100.00

Alfa Bank

As at 31 December 2010, the share capital of Alfa Bank was RUR59,587,623,000 in ordinary registered shares with a nominal value of RUR 1,000 each.

The following table sets forth the shareholders of Alfa Bank as at 31 December 2010:

Shareholder	**Number of Ordinary Shares**	**Nominal Value Per Share**	**%**
		(RUR)	
OJSC AB Holding...	59,519,919	1,000	99.8864
Alfa Capital Holding (Cyprus) Limited	67,704	1,000	0.1136
Total	**59,587,623**	**1,000**	**100.0**

Risk Management

Overview

The Alfa Banking Group's asset, liability and risk management strategy aims to increase its profitability over time subject to specific parameters and business needs. The Alfa Banking Group applies a unified risk management practice across all product lines, comprising credit risk, market risk, currency risk, interest rate risk, operational risk and liquidity risk management. The primary objective of the Alfa Banking Group's risk management is to achieve an optimal level of risk-return on its operations.

The risk management function within the Alfa Banking Group is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate) and operational risks. The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Alfa Banking Group's exposure to internal and external risk factors other than those from financial instruments.

The Alfa Banking Group's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification and (iii) risk assessment, management and control.

Risk governance

The Board of Directors of Alfa Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing the Alfa Banking Group's risk management policies and procedures, as well as approving significantly large exposures.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Executive Board of Alfa Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Alfa Banking Group operates within the established risk parameters. The head of the risk management department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

Credit, market and liquidity risks, at both portfolio and transaction levels, are managed and controlled through a system of credit committees and through the Treasury Department, the Risk Management Department and the Asset and Liability Committee. In order to facilitate efficient decision making, the Alfa Banking Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Risk identification

Both external and internal risk factors are identified and managed throughout the Alfa Banking Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the risk management department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of Alfa Bank.

Risk assessment, management and control

The Alfa Banking Group's risk assessment, reporting and control procedures vary by type of risk, but share a common methodology developed and updated by the Alfa Banking Group's risk management department.

Compliance with the Alfa Banking Group's standards is supported by periodic reviews undertaken by the internal audit department. The results of internal audit reviews are discussed with the management of the business unit to which they relate and presented to the Audit Committee and senior management of the Alfa Banking Group.

Certain regulatory requirements described in this Prospectus, in particular the regulatory requirements established by the CBR, apply only to Alfa Bank and not to the Alfa Banking Group on a consolidated basis.

Credit Risk

The Alfa Banking Group takes on exposure to credit risk, which is the risk that a counterparty will be unable or unwilling to meet its payment obligations in full when due. The Alfa Banking Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry sectors. Alfa Bank also complies with exposure limits for single borrowers and groups of related borrowers established by the CBR. See "*The Banking Sector and Banking Regulation in the Russian Federation*". Such credit risks are monitored on a revolving basis and are subject to regular review. The Executive Board of Alfa Bank regularly approves limits on the level of credit risk on various bases, including product limits, industry limits, individual borrower limits (based upon the borrower's internal credit rating) and collateral limits.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

The Alfa Banking Group defines its risk appetite by approving a lending policy, assigning authority to decide on risk taking issues to specialist committees, and granting specific approval of large transactions. The lending policy sets forth the framework for taking exposure to credit risk, including portfolio concentration limits, and defines responsibilities for managing that exposure.

The Alfa Banking Group's credit committees are responsible for approving credit exposures. Each credit committee conducts its activity based on instructions approved by the Board of Directors.

Depending on the materiality of a specific credit risk, decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees (the "**Credit Committees**"). Levels of risk materiality are determined by the Executive Board. The committees convene weekly. Their members include representatives of the credit department, the risk management department, the legal department and other departments as relevant. The membership of the committees reflects the balanced approach to credit risk undertaken. Transactions with a value above U.S.$100 million have to be approved by the Executive Board. In certain circumstances (for example, based on tenor or size), loans approved by the Main Credit Committee must also be approved by the Executive Board or Board of Directors.

Loans for SME clients are approved by credit officers within the Alfa Banking Group's SME credit department according to approved methodologies.

The retail credit committee monitors the performance of the retail portfolio, approves new retail credit products, controls the provisioning level for the retail portfolio and makes other decisions regarding retail lending. The committee meets once a month. Its members are representatives of all key departments of the Alfa Banking Group.

Credit Process

Corporate lending

In corporate wholesale lending, all transactions undergo a standardised underwriting procedure, which includes a thorough examination of a prospective borrower's creditworthiness, the quality of proposed collateral and the

compliance of the transaction's structure with the Alfa Banking Group's policies and limits. The credit department examines a probable transaction thoroughly with special attention being paid to the analysis of financial stability, long-term viability, credit history, competitive position and quality of collateral. Based on this assessment of the risks associated with both the transaction and the borrower, an internal rating is assigned to the borrower, the collateral provided and the transaction as a whole. This rating assignment is governed by an internal rating methodology, which assigns a rating from I to V:

- rating I—high quality credit transaction: this rating is assigned where the transaction represents a minimum of credit risk due to the presence of a large safety cushion of cash flows in the borrower and the relevant transaction combined with high quality collateral;
- rating II—standard quality credit transaction: the assignment of this rating indicates a low probability of default due to an optimal combination of quality of cash flows in the borrower and the relevant transaction, and appropriate levels of collateral;
- rating IIIA – stable quality credit transaction: assignment of this rating indicates an acceptable quality of cash flows of the borrower and analysed transaction and/or collateral;
- rating IIIB – unstable quality credit transaction: assignment of this rating indicates acceptable but unstable quality of cash flows of the borrower and analyzed transaction and/or collateral;
- rating IV—low quality credit transaction: transactions assigned this rating have a comparatively high probability of default due to their poor quality and the lack or poor quality of collateral available; and
- rating V—non-viable transaction: the credit risk represented by transactions assigned this rating is estimated as high, the incentive to grant such loans usually lying beyond the usual parity of risk and revenues. The Alfa Banking Group does not enter into transactions with an initial rating of V.

The risk management department reviews the analysis and the appropriateness of the ratings assignment and will then draw a conclusion. The conclusion of the risk management department and the financial analysis of the client are then given to the relevant Credit Committee for its consideration. The Credit Committees review the loan applications for approval of a credit limit on the basis of information provided. A limit is proposed to accommodate the exposure to a client within the guidelines set for maximum customer exposure and concentration limits.

Internal ratings methodologies are different for corporate and SME clients because different approaches are used to estimate borrowers' creditworthiness and calculate limits for individual deals in each context. The risk management department conducts selective reviews of the credit analysis and ratings assignments used for SME deals.

The tables set out below provide analysis of credit quality of the Alfa Banking Group's loans to corporate customers as at 31 December 2010, 2009 and 2008.

The following table provides analysis by credit quality of the Alfa Banking Group's loans to corporate customers outstanding as at 31 December 2010.

	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Reverse sale and repurchases receivables	Total
				(*U.S.$ millions*)		
Neither past due nor impaired						
-Rating I	1,475	-	72	-	4	1,551
-Rating II	4,981	93	45	6	238	5,363
-Rating III	5,933	136	131	19	-	6,219
-Rating IV	397	2	2	-	-	401
-Loans renegotiated 2010	623	-	410	-	-	1,033
Total gross neither past due nor impaired	**13,409**	**231**	**660**	**25**	**242**	**14,567**
Past due but not impaired						
-less than 30 days overdue	13	-	-	-	-	13
Total gross past due but not impaired	**13**	**-**	**-**	**-**	**-**	**13**
Individually determined to be impaired (gross)						
- not past due	293	1	274	-	-	568
- 30 to 90 days overdue	20	-	85	-	-	105
- 90 to 180 days overdue	40	-	-	-	-	40
- 180 to 360 days overdue	174	-	-	-	-	174
- over 360 days overdue	399	8	15	-	-	422
Total gross individually impaired loans	**926**	**9**	**374**	**-**	**-**	**1,309**
Total gross loans and advances	**14,348**	**240**	**1,034**	**25**	**242**	**15,889**
Provision for loan impairment	**(1,098)**	**(20)**	**(204)**	**(2)**	**-**	**(1,324)**
Total loans and advances to corporate customers	**13,250**	**220**	**830**	**23**	**242**	**14,565**

The following table provides analysis by credit quality of the Alfa Banking Group's loans to corporate customers outstanding as at 31 December 2009.

	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Reverse sale and repurchases receivables	Total
				(U.S.$ millions)		
Neither past due nor impaired						
-Rating I	1,001	-	-	-	-	1,001
-Rating II	2,491	21	89	6	44	2,651
-Rating III	3,204	69	111	6	8	3,398
-Rating IV	160	-	3	-	6	169
-Loans renegotiated in 2009	1,561	-	154	-	-	1,715
Total gross neither past due nor impaired	**8,417**	**90**	**357**	**12**	**58**	**8,934**
Past due but not impaired						
-less than 30 days overdue	36	-	-	-	-	36
Total gross past due but not impaired	**36**	**-**	**-**	**-**	**-**	**36**
Individually determined to be impaired						
-not past due	750	4	137	13	-	904
-less than 30 days overdue	218	1	-	-	-	219
-30 to 90 days overdue	181	-	694	-	-	875
-90 to 180 days overdue	144	4	-	-	-	148
-180-360 days overdue	1,190	6	-	-	-	1,196
-over 360 days overdue	525	12	-	-	-	537
Total gross individually impaired loans	**3,008**	**27**	**831**	**13**	**-**	**3,879**
Total gross loans and advances	**11,461**	**117**	**1,188**	**25**	**58**	**12,849**
Provision or loan impairment	**(1,173)**	**(26)**	**(195)**	**(9)**	**-**	**(1,403)**
Total loans and advances to corporate customers	**10,288**	**91**	**993**	**16**	**58**	**11,446**

The following table provides analysis by credit quality of the Alfa Banking Group's loans to corporate customers outstanding as at 31 December 2008.

	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Reverse sale and repurchases receivables	Total
				(*U.S.$ millions*)		
Neither past due nor impaired						
-Rating I	4,459	5	65	3	7	4,539
-Rating II	4,403	54	117	58	7	4,639
-Rating III..........................	3,645	183	178	5	5	4,016
-Rating IV..........................	344	3	60	-	-	407
Total gross neither past due nor impaired	**12,851**	**245**	**420**	**66**	**19**	**13,601**
Past due but not impaired						
-less than 30 days overdue..	187	2	49	-	-	238
-30 to 90 days overdue	-	-	826	-	-	826
Total gross past due but not impaired.....................	**187**	**2**	**875**	**-**	**-**	**1,064**
Individually determined to be impaired						
- not past due	948	18	10	1	-	977
-less than 30 days overdue..	405	4	-	-	-	409
-30 to 90 days overdue	246	8	-	-	-	254
-90 to 180 days overdue	69	4	-	-	-	73
-180-360 days overdue	90	3	-	-	-	93
-over 360 days overdue	2	-	-	-	-	2
Total gross individually impaired loans	**1,760**	**37**	**10**	**1**	**-**	**1,808**
Total gross loans and advances	**14,798**	**284**	**1,305**	**67**	**19**	**16,473**
Provision or loan impairment.......................	**(1,011)**	**(27)**	**(33)**	**(2)**	**-**	**(1,073)**
Total loans and advances to corporate customers.....	**13,787**	**257**	**1,272**	**65**	**19**	**15,400**

Retail lending

In a retail context, the Alfa Banking Group must balance the accuracy of its analysis of the credit risk represented by an individual borrower against the market-driven requirement of making a credit decision as rapidly as possible. The key risks faced by the Alfa Banking Group in terms of retail credit risk, like every bank engaged in retail lending in Russia, are accuracy of disclosure (and particularly income disclosure, since most retail lending is based upon declared income) and fraud (notably the falsification of documentation). To analyse these risks as accurately and efficiently as possible, the Alfa Banking Group has developed an automated multi-layer system of checks. The first layer of this analysis involves an automated scoring system, which is run through an Experian software system. If the potential borrower falls below a certain level on this scorecard, their application is automatically rejected. If the potential borrower passes this initial scorecard, their application is then subjected to a further fraud scorecard, which identifies certain factors suggestive of potential fraud, and analysis using the Hunter software system, which compares the application with applications across the Alfa Banking Group's entire range of retail products (see "*Description of the Alfa Banking Group—IT Infrastructure—Enterprise Credit Risk Management Programme*"). This latter software system enables the Alfa Banking Group to determine whether the applicant has applied for any other products from the Alfa Banking Group (and is thus able to analyse patterns in the applicant's borrowing behaviour). If either of these two secondary tests raises any issues with the application, it is forwarded to the branch security team (which is an enforcement team with specialised knowledge of the local market), who will then conduct a variety of detailed background checks, such as employment history or residence. Each branch security team also maintains a blacklist of known criminal offenders and individuals with known histories of default. The automation of these systems means that, subject to no part of the application being flagged, an application can be processed in a minimum of time. It also means that the Alfa Banking Group is able to adjust efficiently its analyses based on regional variations (for instance, to compare average regional income against the declared income on the application) and to develop the accuracy of its modelling based on the historical information that is acquired with each application. This information is also used by the Alfa Banking Group to improve the accuracy of its pricing on its loan products, which can potentially vary enormously depending on the region of Russia in question, given the different risks represented by borrowers in different areas.

Mortgage lending is handled separately from consumer and car loan lending, and involves a significantly more rigorous verification process. Credit decisions are made by mortgage credit officers according to approved underwriting methodology.

The tables that follow provide analysis of credit quality to individuals as at 31 December 2010, 2009 and 2008.

The following table provides analysis by credit quality of the Alfa Banking Group's loans to individuals outstanding as at 31 December 2010.

	Credit cards and Personal instalment loans	**Mortgage loans**	**Consumer loans**	**Car loans**	**Reverse sale and repurchases receivables**	**Total**
			(U.S.$ millions)			
Neither past due nor impaired	797	329	820	203	35	2,184
Total gross neither past due nor impaired......	**797**	**329**	**820**	**203**	**35**	**2,184**
Past due but not impaired						
-less than 30 days overdue	13	6	16	7	-	42
Total gross past due but not impaired	**13**	**6**	**16**	**7**	**-**	**42**
Individually determined to be impaired						
-30 to 90 days overdue	6	5	10	3	-	24
-90 to 180 days overdue	8	4	10	3	-	25
-180 to 360 days overdue	-	1	-	-	-	1
-over 360 days overdue	-	10	-	-	-	10
Total gross individually impaired loans..........	**14**	**20**	**20**	**6**	**-**	**60**
Total gross loans and advances to individuals	**824**	**355**	**856**	**216**	**35**	**2,286**
Provision for loan impairment...............	**(17)**	**(10)**	**(24)**	**(5)**	**-**	**(56)**
Total loans and advances to individuals	**807**	**345**	**832**	**211**	**35**	**2,230**

The following table provides analysis by credit quality of the Alfa Banking Group's loans to individuals outstanding as at 31 December 2009.

	Credit cards and Personal instalment loans	**Mortgage loans**	**Consumer loans**	**Car loans**	**Reverse sale and Repurchase receivables**	**Total**
			(U.S.$ millions)			
Neither past due nor impaired	769	388	367	396	28	1,948
Total gross neither past due nor impaired......	**769**	**388**	**367**	**396**	**28**	**1,948**
Past due but not impaired						
-less than 30 days overdue	25	7	9	13	-	54
Total gross past due but not impaired	**25**	**7**	**9**	**13**	**-**	**54**
Individually determined to be impaired						
-30 to 90 days overdue	15	5	5	9	-	34
-90 to 180 days overdue	26	8	6	8	-	48
-180 to 360 days overdue	-	2	-	-	-	2
-over 360 days overdue	-	18	-	-	-	18
Total gross individually impaired loans..........	**41**	**33**	**11**	**17**	**-**	**102**
Total gross loans and advances to individuals….	**835**	**428**	**387**	**426**	**28**	**2,104**
Provision for loan impairment	**(51)**	**(20)**	**(17)**	**(13)**	**-**	**(101)**
Total loans and advances to individuals	**784**	**408**	**370**	**413**	**28**	**2,003**

The following table provides analysis by credit quality of the Alfa Banking Group's loans to individuals outstanding as at 31 December 2008.

	Credit cards and Personal instalment loans	**Mortgage loans**	**Consumer loans**	**Car loans**	**Reverse sale and Repurchase receivables**	**Total**
			(U.S.$ millions)			
Neither past due nor impaired	887	492	457	666	12	2,514
Total gross neither past due nor impaired......	**887**	**492**	**457**	**666**	**12**	**2,514**
Past due but not impaired						
-less than 30 days overdue......................	34	11	21	21	-	87
Total gross past due but not impaired	**34**	**11**	**21**	**21**	**-**	**87**
Individually determined to be impaired						
-30 to 90 days overdue	24	5	11	11	-	51
-90 to 180 days overdue	17	1	10	7	-	35
Total gross individually impaired loans	**41**	**6**	**21**	**18**	**-**	**86**
Total gross loans and advances to individuals	**962**	**509**	**499**	**705**	**12**	**2,687**
Provision for loan impairment................	(49)	(4)	(41)	(23)	-	(117)
Total loans and advances to individuals	**913**	**505**	**458**	**682**	**12**	**2,570**

Monitoring

The level of credit risk exposure of the Alfa Banking Group is subject to a monitoring process. Exposure to credit risk is managed by the credit department through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The credit department identifies potentially problematic deals using an unambiguous set of criteria to assign a problem status to a transaction, as well as escalation procedures based on problem status.

Any significant exposures to a customer with a deteriorating creditworthiness are reported to and reviewed by the relevant Credit Committee.

Monitoring of retail portfolios is conducted by the retail section of the risk management department every month or more often if needed. Such monitoring includes tracking the following indicators: approval and rejection rates across products and customer segments; delinquency (both lagged and coincident); roll rates (transition of overdue balances across various stages); contact rates (the proportion of borrowers with overdue loans who were contacted by the Alfa Banking Group) and promise rates (the proportion of contacted borrowers with overdue loans who committed to full repayment) to track collection efficiency; historic loss rates by product and origination; special pilot programmes; sectoral limits identified for each of the retail portfolios; charge off rates across each of the product portfolios; recoveries for each of the product portfolios; application scorecard stability and performance across products where such cards are used; and efficiency and effectiveness of the various processes.

Retail lending decisions are based on credit and fraud scores. The credit and fraud scoring processes are bespoke developments based on internal lending performance history. Therefore, the scores can be developed only based on historical performance, which is available only after a statistically significant number of transactions. The scores are administered in a secure automated technology environment, all approve or decline decisions are subject to risk determined cut offs and no overrides are permitted. The scores are monitored for their stability and effectiveness every month and suitable amendments are made should there be a need.

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee, as well as situations where those portfolio concentration limits have nearly been reached. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with the Alfa Banking Group's risk appetite and portfolio limit structure. Portfolio reports covering concentration limits and delinquency rates are also prepared regularly for both the Alfa Banking Group's mortgage and SME lending businesses.

Control

The Alfa Banking Group has established a control environment in which all of its activities relating to credit exposure occur. The purpose of the implemented controls is to ensure a strict adherence to the Alfa Banking Group's policies and procedures, and to promote the delivery of effective risk management.

Such control mechanisms include: (i) producing regular portfolio monitoring reports and regularly presenting those to the relevant Credit Committee, (ii) setting credit policy core principles that govern the detailed department-level policies, (iii) subjecting policies to regular review, (iv) establishing lending guidelines that provide for a disciplined and focused approach to decision-making, (v) using statistically based decision-making techniques such as credit scoring for retail portfolios and (vi) continuous monitoring by the risk management department to measure effectiveness and administer changes as required.

Credit risk mitigation

The Alfa Banking Group uses a wide range of techniques to reduce credit risk in its lending operations, managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis.

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

Credit exposure is the subject of active management. Procedures are in place that ensure timely recognition and prompt reaction to transactions showing signs of deterioration. Responses include reduction of the exposure, obtaining additional collateral, restructuring, or other steps, as appropriate.

Incorporated in risk assessment and lending decision is a credit risk premium. This risk premium seeks to provide fair compensation for the amount of credit risk assumed by the Alfa Banking Group on each transaction.

At a portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limits, (ii) large exposures limits, (iii) industry sector concentration limits, (iv) loan maturity concentration limits, (v) unsecured lending limits and (vi) internal rating limits. Portfolio concentration limits are set to protect against unwanted concentration risk.

The amount of the Alfa Banking Group's maximum exposure to credit risk is reflected in the carrying value of financial assets on the consolidated balance sheet. For issued guarantees and other credit related commitments the amount of maximum exposure to credit risk equals the amount of the Alfa Banking Group's commitment.

As at 31 December 2010, 2009 and 2008, the breakdown of the Alfa Banking Group's maximum exposures to credit risk was as follows:

	As at 31 December		
	2010	**2009**	**2008**
		(U.S.$ millions)	
Cash and cash equivalents (excluding cash on hand balances)	2,625	1,460	3,069
Mandatory cash balances with central banks	189	150	79
Debt trading securities	1,344	1,325	571
Repurchase receivables relating to debt securities	909	-	151
Due from other banks	2,754	2,270	1,837
Loans and advances to customers	16,795	13 449	17,970
Debt investments available for sale	1,351	1,009	317
Repurchase receivables relating to debt investments available for sale	-	-	215
Debt investments held to maturity	324	-	-
Other financial assets (including derivatives)	474	234	892
Total maximum amount exposed to credit risk (on-balance sheet)	26,765	19,897	25,101
Guarantees issued (including cross guarantees)	1,443	1,695	2,545
Import letters of credit	130	99	460
Total maximum amount exposed to credit risk	**28,338**	**21,691**	**28,106**

Market Risk

The Alfa Banking Group has exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products, all of which are exposed to general and specific market movements. The Alfa Banking Group manages its market risk by maintaining notional-based and risk-based limits for its sub-positions. Overall, the Alfa Banking Group's position is split between its (i) Corporate and Retail Banking positions, (ii) Investment Banking position and (iii) Treasury position. The exposure of the Alfa Banking Group's corporate-investment (loans, deposits, current accounts, and other non-trading operations) and retail banking operations to market risks is managed through a system of limits monitored by the Treasury Department. The exposure of the Alfa Banking Group's investment banking operations to market risk is managed through market value, value at risk ("**VaR**") limits and extreme loss limits which are set for both the aggregated position of its investment banking operations

in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities are approved by the Asset and Liability Committee, based on analyses performed by the risk management department. Additional issuer limits on debt securities are approved separately by the relevant credit committee. Both the Alfa Banking Group's proprietary and trading portfolios consist predominantly of liquid traded securities. The Alfa Banking Group's derivative operations are driven by two major factors: (i) the need of the Alfa Banking Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives (including hedging for movements in capital), and (ii) customer demand, principally for foreign currency, securities and derivatives.

Risk-based limits are monitored on a daily basis by the risk management department with respect to the individual trading desks. The overall VaR of the Alfa Banking Group's investment banking operations is monitored on a weekly basis by the risk management department. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Treasury has a held for sale ("**HFS**") portfolio, which consists of sovereign and corporate bonds. The sovereign portion of the HFS portfolio can consist of Russian and other countries' sovereign bonds. The corporate portion of the HFS portfolio can include issuers that the Bank has credit limits for, and that were approved for the HFS portfolio.

Equity price risk

As noted above, for the purpose of quantifying equity price risks facing the Alfa Banking Group that are attributable to its investment banking operations only, the Alfa Banking Group uses a VaR model. Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets. Notably:

- the use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- a one business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- the use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a 1% probability that the loss could exceed the VaR;
- VaR is only calculated on the end-of-day bases and does not necessarily reflect exposures that may arise on positions during the trading day; and
- the VaR measure is dependent upon the Alfa Banking Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

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

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of the Alfa Banking Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of the magnitude of a likely loss under the corresponding scenario. The Alfa Banking Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Alfa Banking Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

The daily equity price VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Alfa Banking Group were to be held unchanged for one business day.

According to the assessments made by the Alfa Banking Group as at 31 December 2010, 2009 and 2008, VaR estimates in respect of equity price risk in the trading book did not exceed U.S.$10 million. The year-end exposures to equity price risk reflect exposures during the financial years 2010, 2009 and 2008.

Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Alfa Banking Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Alfa Banking Group's Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by the asset and liability management unit of the Treasury Department and the middle office, which provides additional position and limit control to support the Asset and Liability Committee.

The Alfa Banking Group's exposure to currency risk is measured on the basis of its open currency position, the limit of which is set by the Asset and Liability Committee. The Alfa Banking Group has adopted two limits: the first limit aims to maintain the structural currency position of the Alfa Banking Group; the second limit limits the speculative currency positions of the Alfa Banking Group's trading desks, is set in risk-based terms for the foreign currency trading desks and currently comprises a VaR limit of US$2.4 million and an extreme market loss limit of US$24.2 million.

Alfa Bank's exposure to currency risk is measured on the basis of its open currency position, the limit of which is set by the CBR under RAR and may not exceed 20% of the Alfa Bank's aggregate capital in all currencies, or 10% of capital denominated in any single currency, including the balancing of the Rouble denominated position. Alfa Bank's open currency position is monitored by the CBR on a daily basis and Alfa Bank believes it currently meets the requirements of the CBR with respect to control of its open currency position.

As a whole, the Alfa Banking Group is exposed to potentially significant risk from sudden fluctuations in the exchange rates of currencies in which the Alfa Banking Group has significant net balance sheet positions. The Alfa Banking Group's major net balance sheet positions are concentrated in U.S. Dollars, Roubles and Euros.

The tables below summarise the Alfa Banking Group's exposure to foreign currency exchange rate risk as at the dates indicated. Included in the table are the Alfa Banking Group's assets and liabilities at carrying amounts, categorised by currency.

The Alfa Banking Group's exposure to foreign currency exchange rate risk as at 31 December 2010 was as follows:

	U.S.$	RUR	EUR	Other currencies	Non-monetary	TOTAL
				(U.S.$ millions)		
Assets						
Cash and cash equivalents	704	1, 408	1,058	12	-	3,182
Mandatory cash balances with central banks	-	148	41	-	-	189
Trading securities	475	809	59	1	82	1,426
Repurchase receivables relating to trading securities	611	285	13	-	5	914
Due from other banks	1,507	1,050	197	-	-	2,754
Loans and advances to customers	5,881	10,207	702	5	-	16,795
Investments	226	1,028	421	-	433	2,108
Other financial assets	264	142	62	6	-	474
Other assets	3	127	16	-	141	287
Premises and equipment	-	-	-	-	304	304
Deferred tax asset	-	-	-	-	45	45
Total assets	**9,671**	**15,204**	**2,569**	**24**	**1,010**	**28,478**
Liabilities						
Due to other banks	977	889	231	-	-	2 097
Customer accounts	3,138	10,553	3,104	17	-	16,812
Debt securities issued	2,277	1,623	207	-	-	4,107
Syndicated and other debt	-	190	-	-	-	190
Subordinated debt	251	1,144	-	-	-	1,395
Other financial liabilities	129	160	36	7	-	332
Other liabilities	143	181	3	-	-	327
Deferred tax liability	-	-	-	-	139	139
Total liabilities	**6,915**	**14,740**	**3,581**	**24**	**139**	**25,399**
Net balance sheet position	**2,756**	**464**	**(1,012)**	**-**	**871**	**3,079**
Net balance sheet position less fair value of foreign exchange derivatives	**2,771**	**487**	**(1,026)**	**2**	**871**	**3,105**
Derivatives	**(96)**	**(1,264)**	**1,312**	**22**	**-**	**(26)**
Net balance sheet and foreign exchange derivatives position as at 31 December 2010	**2,675**	**(777)**	**286**	**24**	**871**	**3,079**

The Alfa Banking Group's exposure to foreign currency exchange rate risk as at 31 December 2009 was as follows:

	U.S.$	RUR	EUR	Other currencies	Non-monetary	TOTAL
				(U.S.$ millions)		
Assets						
Cash and cash equivalents	311	1,127	511	17	-	1,966
Mandatory cash balances with central banks	-	107	43	-	-	150
Trading securities..................	461	384	480	-	47	1,372
Due from other banks	651	842	773	4	-	2,270
Loans and advances to customers	6,703	6,023	645	78	-	13,449
Investments	344	660	5	-	499	1,508
Other financial assets (including derivatives)	144	90	14	3	-	251
Other assets...........................	6	95	14	-	162	277
Premises and equipment	-	-	-	-	366	366
Deferred tax asset..................	-	-	-	-	37	37
Total assets	**8,620**	**9,328**	**2,485**	**102**	**1,111**	**21,646**
Liabilities						
Due to other banks	170	612	244	82	-	1,108
Customer accounts.................	3,135	6,791	3,750	10	-	13,686
Debt securities issued, syndicated and other debt.......	1,023	534	303	-	-	1,860
Subordinated debt	438	1,309	-	-	-	1,747
Other financial liabilities (including derivatives)	135	103	83	1	-	322
Other liabilities	104	9	10	-	-	123
Deferred tax liability.............	-	-	-	-	102	102
Total liabilities.....................	**5,005**	**9,358**	**4,390**	**93**	**102**	**18,948**
Net balance sheet position ...	**3,615**	**(30)**	**(1,905)**	**9**	**1,009**	**2,698**
Net balance sheet position less fair value of foreign exchange derivatives...........	**3,631**	**(3)**	**(1,907)**	**9**	**1,009**	**2,739**
Derivatives...........................	**(910)**	**(547)**	**1,443**	**(27)**	**-**	**(41)**
Net balance sheet and foreign exchange derivatives position as at 31 December 2009	**2,721**	**(550)**	**(464)**	**(18)**	**1,009**	**2,698**

The Alfa Banking Group's exposure to foreign currency exchange rate risk as at 31 December 2008 was as follows:

	U.S.$	RUR	EUR	Other currencies	Non-monetary	TOTAL
				(U.S.$ millions)		
Assets						
Cash and cash equivalents....	2,311	1,107	418	24	-	3,860
Mandatory cash balances with central banks................	-	26	49	4	-	79
Trading securities	286	101	154	30	17	588
Repurchase receivables relating to trading securities	37	114	-	-	-	151
Due from other banks...........	804	809	224	-	-	1,837
Loans and advances to customers.............................	8,518	8,099	1,250	103	-	17,970
Investments..........................	114	203	-	-	55	372
Repurchase receivables relating to investments..........	18	197	-	-	-	215
Other financial assets (including derivatives)..........	791	253	147	4	-	1,195
Other assets	8	175	10	-	178	371
Premises and equipment.......	-	-	-	-	390	390
Deferred tax asset	-	-	-	-	24	24
Total assets.........................	**12,887**	**11,084**	**2,252**	**165**	**664**	**27,052**
Liabilities						
Due to other banks................	1,025	5,815	453	114	-	7,407
Customer accounts	2,983	5,603	3,866	130	-	12,582
Debt securities issued, syndicated and other debt.....	2,514	560	375	6	-	3,455
Subordinated debt................	464	-	-	-	-	464
Other financial liabilities (including derivatives)..........	649	86	96	2	-	833
Other liabilities....................	42	52	16	-	-	110
Deferred tax liability	-	-	-	-	39	39
Total liabilities	**7,677**	**12,116**	**4,806**	**252**	**39**	**24,890**
Net balance sheet position..	**5,210**	**(1,032)**	**(2,554)**	**(87)**	**625**	**2,162**
Net balance sheet position less fair value of foreign exchange derivatives...........	**5,016**	**(1,043)**	**(2,627)**	**(88)**	**625**	**1,883**
Derivatives..........................	**(3,356)**	**812**	**2,630**	**193**	**-**	**279**
Net balance sheet and foreign exchange derivatives position as at 31 December 2008..............	**1,660**	**(231)**	**3**	**105**	**625**	**2,162**

Derivatives in each column represent the fair value, as at the balance sheet date, of the respective currency that the Alfa Banking Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross. The net total represents the fair value of the currency derivatives.

Different entities within the Alfa Banking Group have different functional currencies, based on the underlying economic conditions of their operations. For the purpose of currency risk sensitivity analysis, the Alfa Banking Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the relevant reporting date into three currency zones depending on the functional currencies of the entities included in the zone:

- Rouble zone (includes all Russian Federation and CIS subsidiaries);
- Euro zone (includes ATB); and
- U.S. Dollar zone (includes all other foreign subsidiaries operating internationally).

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the consolidated statement of income. Risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Alfa Banking Group is excluded from the sensitivity analysis. As the Alfa Banking Group's exposure to currencies other than the U.S. Dollar, Euro and Rouble is not considerable in comparison to other exposures, in performing sensitivity analyses the Alfa Banking Group includes its net position in other currencies into the net position in U.S. Dollars.

As at 31 December 2010 the Alfa Banking Group's net currency position including foreign currency derivatives was as follows:

	U.S.$/RUR	**U.S.$/EUR**	**EUR/RUR**
		(U.S.$ millions)	
Rouble zone	(1,384)	-	(112)
Euro zone	-	(333)	2
U.S. dollar Zone	3,629	53	-
Total exposure	**2,245**	**(280)**	**(110)**

As at 31 December 2010, if the USD/RUR rate changed by +/-1,000 basis points, the USD/EUR rate changed by +/-1,000 basis points and the EUR/RUR rate changed by +/-1,000 basis points, this would effect the consolidated statement of income of the Alfa Banking Group as follows:

	U.S.$/RUR	**U.S.$/EUR**	**EUR/RUR**
		(U.S.$ millions)	
+1,000 basis points change in all foreign currency exchange rates	225	(28)	(11)
-1,000 basis points change in all foreign currency exchange rates	(225)	28	11

As at 31 December 2009, the Alfa Banking Group's net currency position including foreign currency derivatives was as follows:

	U.S.$/RUR	U.S.$/EUR	EUR/RUR
		(U.S.$ millions)	
Rouble zone	1,933	-	(1,118)
Euro zone	-	(404)	(5)
U.S. dollar Zone	(1,015)	290	-
Total exposure	**918**	**(114)**	**(1,123)**

As at 31 December 2009, if the USD/RUR rate changed by +/-1,000 basis points, the USD/EUR rate changed by +/-1,000 basis points and the EUR/RUR rate changed by +/-1,000 basis points, this would effect the consolidated statement of income of the Alfa Banking Group as follows:

	U.S.$/RUR	U.S.$/EUR	EUR/RUR
		(U.S.$ millions)	
+1,000 basis points change in all foreign currency exchange rates	92	(11)	(112)
-1,000 basis points change in all foreign currency exchange rates	(92)	11	112

As at 31 December 2008, the Alfa Banking Group's net currency position including foreign currency derivatives was as follows:

	U.S.$/RUR	U.S.$/EUR	EUR/RUR
		(U.S.$ millions)	
Rouble zone	1,700	-	233
Euro zone	-	(117)	-
U.S. dollar Zone	(764)	393	-
Total exposure	**936**	**276**	**233**

As at 31 December 2008, if the USD/RUR rate changed by +/-3,000 basis points, the USD/EUR rate changed by +/-3,000 basis points and the EUR/RUR rate changed by +/-3,000 basis points, this would effect the consolidated statement of income of the Alfa Banking Group as follows:

	U.S.$/RUR	U.S.$/EUR	EUR/RUR
		(U.S.$ millions)	
+3,000 basis points change in all foreign currency exchange rates	281	83	70
-3,000 basis points change in all foreign currency exchange rates	(281)	(83)	(70)

Interest Rate Risk

The Alfa Banking Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and other borrowed funds at fixed or variable interest rates. Due to changes in interest rates, the Alfa Banking Group's liabilities may

have disproportionately high interest rates compared to those of its assets and vice versa. One of the Alfa Banking Group's objectives is to minimise losses from unexpected negative changes in interest margins.

The table below summarises the Alfa Banking Group's exposure to interest rate risks as at 31 December 2010, 2009 and 2008. The table presents aggregated amounts of the Alfa Banking Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 month	From 6 to 12 months	More than 1 year	Non-monetary	TOTAL
			(U.S.$ millions)			
As at 31 December 2010						
Total financial assets	7,875	3,783	2,647	13,022	515	27,842
Total financial liabilities	(10,414)	(5,557)	(3,277)	(5,685)	-	(24,933)
Effect of interest based derivatives	312	116	(46)	(382)	-	-
Net interest sensitivity gap as at 31 December 2010	**(2,227)**	**(1,658)**	**(676)**	**6,955**	**515**	**2,909**
As at 31 December 2009						
Total financial assets	7,251	3,460	1,657	8,052	546	20,966
Total financial liabilities	(8,418)	(4,279)	(1,728)	(4,298)	-	(18,723)
Effect of interest based derivatives	1,242	(139)	(20)	(1,083)	-	-
Net interest sensitivity gap as at 31 December 2009	**75**	**(958)**	**(91)**	**2,671**	**546**	**2,243**
As at 31 December 2008						
Total financial assets	9,524	6,375	2,780	7,516	72	26,267
Total financial liabilities	(11,729)	(7,640)	(2,648)	(2,724)	-	(24,741)
Effect of interest based derivatives	1,262	678	(129)	(1,811)	-	-
Net interest sensitivity gap as at 31 December 2008	**(943)**	**(587)**	**3**	**2,981**	**72**	**1,526**

The Alfa Banking Group's interest rate risk is managed by the Treasury Department within limits set by the Asset and Liability Committee. Such limits are monitored on a weekly basis by the asset and liability management unit of the Treasury Department. The Alfa Banking Group's Asset and Liability Committee sets sensitivity limits in terms of "present value to 100 basis points interest rate shift" which measures the impact of a nominal 1% rise of interest rates along the various maturities on the yield curve on the present value of the Alfa Banking Group's assets, liabilities and off-balance sheet instruments. The Asset and Liability Committee sets such limits for the Alfa Banking Group's Rouble, U.S. Dollar and Euro positions and for the Alfa Banking Group's overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies. The asset and liability management unit of the Treasury Department monitors on a weekly basis sensitivity in term of "interest revenue to 100 basis points interest rate shift" which measures the impact of a nominal 1% rise of interest rates along the various maturities on the yield curve on the interest revenue of the Alfa Banking Group's

assets, liabilities and off-balance sheet instruments for the nearest one year. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies and interest rate derivatives such as USD and RUR interest swaps.

As at 31 December 2010, if interest rates at that date had been 1% lower, with all other variables held constant, pre-tax profit for the year ended 31 December 2010 would have been U.S.$12 million lower, whereas if interest rates had been 1% higher, with all other variables held constant, pre-tax profit for the year ended 31 December 2010 would have been U.S.$12 million higher.

As at 31 December 2009, if interest rates at that date had been 1% lower, with all other variables held constant, pre-tax profit for the year ended 31 December 2009 would have been U.S.$7 million lower. If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profit for the year ended 31 December 2009 would have been U.S.$7 million higher.

As at 31 December 2008, if interest rates at that date had been 3% lower, with all other variables held constant, pre-tax profit for the year ended 31 December 2008 would have been U.S.$39.5 million higher. If interest rates had been 3% higher, with all other variables held constant, pre-tax profit for the year ended 31 December 2008 would have been U.S.$39.5 million lower.

The Alfa Banking Group monitors interest rates for its financial instruments. The tables below summarise effective interest rates by major currencies for the Alfa Banking Group's key financial instruments as at 31 December 2010, 2009, 2008.

As at 31 December 2010	**U.S.$**	**RUR**	**EUR**	**Other currencies**
		(In % per annum)		
Assets				
Cash balances with central banks	-	0.0	0.0	-
Correspondence accounts and overnight placements with other banks	0.1	2.9	0.1	0.0
Mandatory cash balances with central banks	-	0.0	0.0	-
Debt trading securities	8.2	9.0	9.5	3.5
Repurchase receivables relating to debt securities	7.9	9.7	6.9	-
Due from other banks	3.1	3.3	1.4	-
Loans and advances to customers	10.9	11.6	8.3	0.0
Debt investments available for sale	7.4	8.8	4.6	-
Investments held to maturity	6.4	-	3.7	-
Liabilities				
Due to other banks	2.1	3.5	4.2	-
Customer accounts:				
- Current and settlement accounts	0.1	0.3	0.7	0.2
- Term deposits	2.9	6.5	4.0	0.0
Debt securities issued	8.1	7.2	4.6	-
Syndicated and other debt	-	6.7	-	-
Subordinated debt	8.9	7.7	-	-

The sign "-" in the table above means that the Alfa Banking Group does not have the respective assets or liabilities in corresponding currency.

As at 31 December 2009	U.S.$	RUR	EUR	Other currencies
		(In % per annum)		
Assets				
Cash balances with central banks	0.0	0.0	0.0	0.0
Correspondence accounts and overnight placements with other banks	0.2	1.7	0.1	0.1
Mandatory cash balances with central banks	-	0.0	0.0	-
Debt trading securities	6.9	11.7	3.5	-
Due from other banks	9.8	5.9	1.1	0.0
Loans and advances to customers	11.5	16.2	9.2	13.8
Debt investments available for sale	5.7	8.8	8.3	-
Liabilities				
Due to other banks	2.2	8.4	3.1	1.0
Customer accounts:				
- Current and settlement accounts	0.3	0.5	0.1	0.0
- Term deposits	4.9	9.5	4.9	3.4
Debt securities issued	7.2	4.6	4.3	-
Syndicated and other debt	2.3	6.7	-	-
Subordinated debt	9.0	9.5	-	-

The sign "-" in the table above means that the Alfa Banking Group does not have the respective assets or liabilities in corresponding currency.

As at 31 December 2008	U.S.$	RUR	EUR	Other currencies
		(In % per annum)		
Assets				
Cash balances with central banks	0.0	0.0	0.0	0.0
Correspondence accounts and overnight placements with other banks	0.0	0.0	1.8	0.0
Mandatory cash balances with central banks	-	0.0	0.0	0.0
Debt trading securities	7.7	10.1	4.4	6.6
Repurchase receivables relating to debt trading securities	7.2	7.8	-	-
Due from other banks	0.9	20.6	1.9	-
Loans and advances to customers	12.3	16.8	9.9	12.4
Debt investments available for sale	8.1	6.9	-	-
Repurchase receivables relating to debt investments available for sale	7.5	6.2	-	-
Liabilities				
Due to other banks	5.8	10.9	5.3	2.7
Customer accounts:				
- Current and settlement accounts	1.4	0.8	4.3	0.0
- Term deposits	7.6	10.5	6.8	8.7
Debt securities issued	7.5	10.5	6.1	12.0
Syndicated and other debt	4.1	6.5	-	-
Subordinated debt	9.0	-	-	-

The sign "-" in the table above means that the Alfa Banking Group does not have the respective assets or liabilities in corresponding currency.

Liquidity Risk

Liquidity risk is defined as the risk that an entity will encounter difficulties in meeting obligations associated with its financial liabilities. The Alfa Banking Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, and from margin and other calls on cash settled derivative instruments. The Alfa Banking Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is supervised by the Asset and Liability Committee, which sets liquidity risk limits that are monitored on a daily basis by the asset and liability management unit of the Treasury Department. The liquidity management of the Alfa Banking Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring balance sheet liquidity ratios against regulatory requirements.

Alfa Bank is subject to liquidity requirements set by the CBR. See "*The Banking Sector and Banking Regulation in the Russian Federation*". Alfa Bank calculates liquidity ratios on a daily basis in accordance with these CBR requirements. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; and (iii) long-term liquidity ratio (N4), which is calculated as

the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. For the years ended 31 December 2010, 2009 and 2008, Alfa Bank was in compliance with all three standards.

To manage its current and mid-term liquidity, the Alfa Banking Group assesses liquidity on the basis of its payment calendar, which it generates on a daily basis, as well as the effects on liquidity of major transactions into which the Alfa Banking Group intends to enter. This liquidity profile is prepared by the Alfa Banking Group's Treasury Department. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Alfa Banking Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing of both short-term and long-term liquidity is performed by the Treasury Department, covering a variety of scenarios ranging from normal to more severe market conditions. If a liquidity shortfall occurs, liquidity needs may have to be met from various sources, including:

- disposition of a portion of its most liquid assets;
- entering into a securities repurchase transaction with the CBR;
- limiting the growth of assets in a specific line of business;
- adjusting its rates and fees; and/or
- securing more long-term and short-term funding from its major clients, other banks and counterparties.

As noted above, the Alfa Banking Group's Treasury Department monitors expected maturities (as opposed to using undiscounted maturity analysis) in order to manage the Alfa Banking Group's liquidity. The following tables provide an analysis of the Alfa Banking Group's assets and liabilities as at 31 December 2010, 2009 and 2008 by their expected maturities as determined by the Alfa Banking Group. This analysis was prepared on the basis of contractual maturities except in relation to the classification of (i) trading securities and (ii) parts of customer accounts. The entire portfolio of trading securities was classified within "demand and less than 1 month" based on the Alfa Banking Group's management's assessment of the portfolio's realisability. Part of current/settlement/demand accounts was also reallocated from "demand and less than 1 month" category to categories with the later maturities, on the basis that the Alfa Banking Group's past experience leads its management to believe that (i) the diversification of these accounts by number and type of customers and (ii) the constant inflow of new deposits indicate that at least a proportion of current/demand/settlement accounts would provide a long-term and stable source of funding for the Alfa Banking Group.

The following table provides an analysis of the Alfa Banking Group's assets and liabilities as at 31 December 2010 by their expected maturities as determined by the Alfa Banking Group.

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**TOTAL**
			(U.S.$ millions)			
Assets						
Cash and cash equivalent	3,182	-	-	-	-	3,182
Mandatory cash balances with central banks	189	-	-	-	-	189
Trading securities	1,426	-	-	-	-	1,426
Repurchase receivables relating to trading securities	534	-	380	-	-	914
Due from other banks	1,896	188	325	345	-	2,754
Loans and advances to customers	1,218	2,661	1,638	11,278	-	16,795
Investments	85	313	287	990	433	2,108
Other financial assets	272	74	1	127	-	474
Other assets	73	73	-	-	141	287
Premises and equipment	-	-	-	-	304	304
Deferred tax asset	-	-	-	-	45	45
Total assets	**8,875**	**3,309**	**2,631**	**12,740**	**923**	**28,478**
Liabilities						
Due to other banks	1,037	417	461	182	-	2,097
Customer accounts	3,661	4,192	2,398	6,561	-	16,812
Debt securities issued	79	1,146	651	2,231	-	4,107
Syndicated and other debt	1	5	36	148	-	190
Subordinated debt	-	33	78	1,284	-	1,395
Other financial liabilities	163	120	-	49	-	332
Other liabilities	3	42	51	231	-	327
Deferred tax liability	-	-	-	-	139	139
Total liabilities	**4,944**	**5,995**	**3,675**	**10,686**	**139**	**25,399**
Net expected liquidity gap as at 31 December 2010	**3,931**	**(2,646)**	**(1,044)**	**2,054**	**784**	**3,079**
Cumulative expected liquidity gap as at 31 December 2010	**3,931**	**1,285**	**241**	**2,295**	**3,079**	

The following table provides an analysis of the Alfa Banking Group's assets and liabilities as at 31 December 2009 by their expected maturities as determined by the Alfa Banking Group.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	TOTAL
			(U.S.$ millions)			
Assets						
Cash and cash equivalent	1,966	-	-	-	-	1,966
Mandatory cash balances with central banks	150	-	-	-	-	150
Trading securities	1,372	-	-	-	-	1,372
Due from other banks	1,784	62	24	400	-	2,270
Loans and advances to customers	2,377	2,079	1,576	7,417	-	13,449
Investments	19	110	9	871	499	1,508
Other financial assets	149	94	2	6	-	251
Other assets	-	111	-	4	162	277
Premises and equipment	-	-	-	-	366	366
Deferred tax asset	-	-	-	-	37	37
Total assets	**7,817**	**2,456**	**1,611**	**8,698**	**1,064**	**21,646**
Liabilities						
Due to other banks	792	143	62	111	-	1,108
Customer accounts	3,195	3,589	1,517	5,385	-	13,686
Debt securities issued	84	468	203	810		1,565
Syndicated and other debt	71	6	38	180	-	295
Subordinated debt	-	47	246	1,454	-	1,747
Other financial liabilities	165	126	5	26	-	322
Other liabilities	7	65	-	51	-	123
Deferred tax liability	-	-	-	-	102	102
Total liabilities	**4,314**	**4,444**	**2,071**	**8,017**	**102**	**18,948**
Net expected liquidity gap as at 31 December 2009	**3,503**	**(1,988)**	**(460)**	**681**	**962**	**2,698**
Cumulative expected liquidity gap as at 31 December 2009	**3,503**	**1,515**	**1,055**	**1,736**	**2,698**	

The following table provides an analysis of the Alfa Banking Group's assets and liabilities as at 31 December 2008 by their expected maturities as determined by the Alfa Banking Group.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	TOTAL
			(U.S.$ millions)			
Assets						
Cash and cash equivalent	3,860	-	-	-	-	3,860
Mandatory cash balances with central banks	79	-	-	-	-	79
Trading securities	588	-	-	-	-	588
Repurchase receivables relating to trading securities	13	138	-	-	-	151
Due from other banks	1,706	41	6	84	-	1,837
Loans and advances to customers	2,289	5,239	2,556	7,886	-	17,970
Investments	-	92	35	190	55	372
Repurchase receivables relating to investments	24	191	-	-	-	215
Other financial assets (including derivatives)	389	512	195	99	-	1,195
Other assets	-	193	-	-	178	371
Premises and equipment	-	-	-	-	390	390
Deferred tax asset	-	-	-	-	24	24
Total assets	**8,948**	**6,406**	**2,792**	**8,259**	**647**	**27,052**
Liabilities						
Due to other banks	2,845	4,088	158	316	-	7,407
Customer accounts	3,658	2,497	1,963	4,464	-	12,582
Debt securities issued, syndicated and other debt	568	535	969	1,383	-	3,455
Subordinated debt	-	19	19	426	-	464
Other financial liabilities (including derivatives)	274	284	163	112	-	833
Other liabilities	11	71	-	28	-	110
Deferred tax liability	-	-	-	-	39	39
Total liabilities	**7,356**	**7,494**	**3,272**	**6,729**	**39**	**24,890**
Net expected liquidity gap as at 31 December 2008	**1,592**	**(1,088)**	**(480)**	**1,530**	**608**	**2,162**
Cumulative expected liquidity gap as at 31 December 2008	**1,592**	**504**	**24**	**1,554**	**2,162**	

The Alfa Banking Group's management believes that despite a substantial portion of customer accounts being on demand and the fact that under the Civil Code individuals have a right to withdraw term deposits prior to their stated maturity as long as they forfeit their right to accrued interest, the diversification of customer deposits by number and type of depositors, and the past experience of the Alfa Banking Group, would indicate that these customers accounts provide a long-term and stable source of funding.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because, based on past experience and historical data, the Alfa Banking Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since the majority of these commitments will expire or terminate without being funded.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Alfa Banking Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Alfa Banking Group and its exposure to changes in interest and exchange rates.

Securities Portfolio Risk

Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or market price movements. For its trading securities portfolio, the Alfa Banking Group has in place limits on various types of securities and securities transactions, including limits on foreign currency and Rouble-denominated Russian government securities, Russian regional and municipal securities, Russian corporate equity and debt securities, foreign investment-grade corporate debt securities, limits on derivative, repo and reverse-repo transactions, as well as single issuer limits, which allow it to maintain its securities portfolio risk at a level that the Alfa Banking Group deems acceptable given its current level of capital. The Asset and Liability Committee also assigns open position limits as well as VaR and stress test limits for the Alfa Banking Group's overall position. The head of the investment branch of Alfa Banking Group's corporate-investment banking department has the right to reallocate overall limits across different trading desks, subject to the approval of the risk management department, within the overall limits of the Alfa Banking Group set by the Asset and Liability Committee. If these limits are violated, then the Alfa Banking Group takes appropriate measures, including, but not limited to, selling securities, closing out positions and halting the transactions that led to such limit violations. No material limit violations have taken place in the past three years.

Operational Risk

In line with the Basel II Framework, the Alfa Banking Group defines operational risk as the risk of loss resulting from inadequate or ineffective internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputation risk. Examples of events that are included under this definition of operational risk are losses from fraud, computer system failures, settlement errors, model errors or natural disasters.

The Alfa Banking Group monitors its operational risk profile and material exposures to operational losses on a regular basis. The Alfa Banking Group's system of regular reporting of information to senior management supports the proactive management of operational risk.

The Alfa Banking Group has in place an operational risk policy to ensure a consistent group-wide approach to the identification, assessment and management of operational risk.

The Alfa Banking Group regards active participation on the part of its business divisions as a cornerstone for effective management of risk. Each business division is primarily responsible for the identification and assessment of operational risk arising from its business operations. In circumstances where a business division considers it appropriate, operational risk is insured.

The coordination of operational risk management activities is carried out by the operational risk management department (the "**ORM**"). The ORM's principal responsibilities include risk-audit, assessment of operational risk at a transactional level and a systemic level, and development of risk mitigation strategies and solutions. In performing its functions, the ORM employs common operational risk management mechanisms, including internal loss collection and reporting, key risk indicators, external loss data collection, control and risk self-assessments. ORM takes part in carrying out operational risk analysis of new products and complex transactions, as well as intra-bank regulations. Alfa Bank has twice received the Operational Risk Achievement Award for "Best operational risk framework at an institution based in an emerging market" and was short-listed as a finalist for the "Best standardised or alternative standardised framework in operational risk management" award given by Incisive Media (part of the Risk Waters Group).

Each year, the Alfa Banking Group obtains an international comprehensive banking risk insurance policy, also known as a "banker's blanket bond" ("**BBB**"), which covers its professional activities world-wide and insures it against, among other things, forgery, electronic and computer crimes and employees' unlawful actions. The amount of indemnity coverage provided by the policy currently in effect is limited to U.S.$80 million for BBB coverage and computer crime and U.S.$40 million for professional indemnity (which includes liability to third parties arising from negligence or error on the part of the Alfa Banking Group).

Anti-Money Laundering Measures

As a member state of the FATF, the Russian Federation adopted the Anti-Money Laundering Law. This law remains the principal legislative source in the Russian Federation for combating money laundering. Subsequent to the passage of the Anti-Money Laundering Law, the CBR promulgated a number of regulations in this field specifically for the banking sector.

The Alfa Banking Group's management believes that Alfa Bank's internal policies and procedures, which have been approved by the CBR, comply fully with the provisions of the Anti-Money Laundering Law and applicable regulations.

Alfa Bank's anti-money laundering policy requires, among other things: risk-based identification of every client, verification of each client's documents, monitoring of each client's operations, detection and reporting of operations according to suspicious (or unusual) obligatory control criteria, record keeping and staff training. All detected suspicious operations and operations that are subject to obligatory control must be reported by Alfa Bank's compliance department on a daily basis to the CBR for further reporting to the Federal Service for Financial Monitoring.

Anti-Terrorism Measures

Every new customer of Alfa Bank is screened against the Federal Service for Financial Monitoring's List of Designated Extremists. In addition, all outgoing international payments are checked by Alfa Bank's compliance department against the lists of all the major sanctioning bodies, such as the United Nations, the U.S. Office of Foreign Asset Controls, the European Union and law enforcement agencies and regulators.

Selected Statistical and Other Information

The following selected statistical and other financial information is derived, where applicable, from the annual consolidated financial statements or the unaudited condensed consolidated interim financial, information of ABH Financial.

Average Balance Sheet and Interest Rate Data

The following table sets forth the consolidated average balances of assets and liabilities of the Alfa Banking Group for the periods indicated and, for interest-earning assets and interest-bearing liabilities, sets forth the amount of interest income or expense and the average rate of such interest for such assets and liabilities. For the purposes of this table, the consolidated average balances of assets and liabilities represent the average of the opening, mid-year and closing balances for the years 2010, 2009 and 2008. The results of this analysis would likely be different if alternative averaging balance methods were used.

	31 December 2010			31 December 2009			31 December 2008		
	Average Balance	Interest Income/ Expense	Average Interest Rate (1),	Average Balance	Interest Income/ Expense	Average Interest Rate (1)	Average Balance	Interest Income/ Expense	Average Interest Rate (1)
Assets									
Interest earning assets									
Correspondence accounts and overnight placements with banks and financial institutions	1,063			604			746		
Due from other banks[2]	2,390			2,326			2,012		
Due from other banks including correspondence accounts and overnight placements with banks and financial institutions	3,453	142	4.1%	2,930	194	6.6%	2,758	159	5.8%
Loans and advances to customers[2]	16,088	1,952	12.1%	16,465	2,166	13.2%	18,360	2,513	13.7%
Investments, trading securities and repurchase receivables[3]	2,818	226	8.0%	1,846	159	8.6%	1,382	152	11.0%
Total interest-earning assets	22,359	2,320	10.4%	**21,241**	**2,519**	**11.9%**	**22,500**	**2,824**	**12.6%**
Non-interest earning assets									
Cash on hand and cash balances with central banks	1,452			2,308			2,328		
Mandatory cash balances with central banks	165			105			311		
Provisions for loan impairment	(1,442)			(1,382)			(684)		
Investments, trading securities and repurchase receivables [4]	650			252			226		
Premises and equipment	374			359			323		
Other financial assets (including derivatives) and other assets	638			987			1,153		
Deferred tax assets	38			28			50		
Total average assets	24,234			**23,898**			**26,207**		
Liabilities and equity									
Interest bearing liabilities									
Due to other banks	1,574	62	3.9%	4,159	419	10.1%	4,574	251	5.5%
Customer accounts	14,494	541	3.7%	12,955	736	5.7%	13,786	818	5.9%
Debt securities issued, syndicated and other debt	3,009	218	7.2%	2,634	167	6.3%	4,251	290	6.8%
Subordinated debt	1,616	151	9.3%	993	80	8.1%	506	46	9.1%
Total interest bearing liabilities	20,693	972	4.7%	**20,741**	**1,402**	**6.8%**	**23,117**	**1,405**	**6.1%**
Non-interest bearing liabilities									
Other financial liabilities (including derivatives) and other liabilities	534			627			903		
Deferred tax liability	121			69			51		
Equity	2,887			2,461			2,136		
Non-controlling Interests	1			8			5		
Net assets attributable to the Company's owners	2,885			2,453			2,131		
Total average liabilities and equity	24,234			**23,898**			**26,207**		
Net interest spread [5]			5.7%			5.1%			6.5%
Net interest income [6]		1,348			1,117			1,419	
Net interest margin[6], [7]			6.0%			5.3%			6.3%

(1) Average interest rates on interest-earning assets are calculated as total interest income divided by average interest-earning assets. Average rates on interest-bearing liabilities are calculated as total interest expense divided by average interest-bearing liabilities.

(2) Before provision for loan impairment.

(3) Excludes equity securities, as these securities are not interest-earning.

(4) Only Equity securities

(5) The difference between the average annual interest rate on interest-earning assets and the average annual interest rate on interest-bearing liabilities.

(6) Net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets.

(7) Net interest income and net interest margin above do not include expenses directly attributable to leasing and deposit insurance.

Investment Portfolio

The following table sets out information relating to the Alfa Banking Group's gross securities portfolio by investment category as at 31 December 2010, 2009 and 2008:

	As at 31 December		
	2010	**2009**	**2008**
		(U.S.$ millions)	
Trading securities and repurchase receivables			
ADRs and GDRs	38	17	7
Corporate Shares	44	30	11
Corporate bonds	630	383	204
Corporate Eurobonds	421	554	368
Bonds and Eurobonds of other states	86	347	96
Municipal bonds	15	1	6
Municipal Eurobonds	-	40	-
Promissory notes	190	-	-
Russian Federation Eurobonds and bonds	2	-	17
Repurchase receivables	914	-	30
Total trading securities and repurchase receivables relating to trading securities	**2,340**	**1,372**	**739**
Equity investments	433	499	55
Debt investments available for sale	1,351	1,009	532
Debt investments held to maturity	324	-	-
Total investments and repurchase receivables relating to investments	**2,108**	**1,508**	**587**

Loans and advances to customers

Loans to customers and due from banks

The Alfa Banking Group's loans and advances to customers include loans to banks and loans to corporate and retail customers. The following table provides a breakdown of the Alfa Banking Group's loans and advances by loans to customers and due from banks as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Corporate customers						
Corporate loans..........	14,348	68.6	11,461	66.6	14,798	70.3
Finance lease receivables................	1,034	4.9	1,188	6.9	1,305	6.2
Loans to SMEs	240	1.1	117	0.7	284	1.4
Advances on lease operations	25	0.1	25	0.1	67	0.3
Reverse sale and repurchase receivables................	242	1.2	58	0.3	19	0.1
Individuals						
Credit card and personal instalment loans	824	3.9	835	4.8	962	4.6
Mortgage loans..........	355	1.7	428	2.5	509	2.4
Consumer loans.........	856	4.1	387	2.2	499	2.4
Car loans...................	216	1.0	426	2.5	705	3.4
Reverse sale and repurchase receivables................	35	0.2	28	0.2	12	0.1
Total gross loans and advances to customers.................	**18,175**	**86.8**	**14,953**	**86.8**	**19,160**	**91.2**
Due from other banks[1]						
Term placements	2,357	11.3	2,260	13.1	1,732	8.3
Subordinated loans to PAO Alfa-Bank Ukraine	248	1.2	-	-	-	-
Reverse sale and repurchase agreements................	149	0.7	10	0.1	110	0.5
Total due from other banks..............	**2,754**	**13.2**	**2,270**	**13.2**	**1,842**	**8.8**
Subtotal	**20,929**	**100**	**17,223**	**100**	**21,002**	**100**
Provision for loan impairment[2]	(1,380)	-	(1,504)	-	(1,195)	-
Total.........................	**19,549**	**-**	**15,719**	**-**	**19,807**	**-**

(1) Not including mandatory cash balances with the CBR or other central banks and correspondent accounts and overnight placements with other banks.

(2) This provision for loan impairment relates to both loans to customers and balances due from other banks.

Economic Sector Concentration

The following tables set forth the structure of the Alfa Banking Group's gross loans to customers by economic sector, as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
Sector	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
Trade and commerce	2,069	11.4	1,418	9	2,065	11
Construction	2,064	11.4	2,129	16	3,238	17
Individuals	2,286	12.6	2,104	14	2,687	14
Finance and investment companies....	1,067	5.9	756	5	882	5
Ferrous metallurgy.........	1,470	8.1	662	4	897	5
Power generation	1,751	9.6	1,120	7	988	5
Armaments production ..	964	5.3	549	4	703	4
Railway transport...........	1,471	8.1	1,593	11	1,820	10
Machinery and metal working.........................	394	2.2	804	5	1,114	6
Non-ferrous metallurgy.....................	325	1.8	355	2	858	4
Nuclear industry	866	4.8	622	4	455	2
Natural gas industry.......	41	0.2	24	-	49	-
Diamond extraction and processing	30	0.2	275	2	302	2
Food industry.................	1,055	5.8	468	3	477	2
Aviation transport..........	391	2.2	247	2	302	2
Oil industry....................	618	3.4	77	1	815	4
Mass media and telecommunications.......	212	1.2	256	2	237	1
Chemistry and petrochemicals..............	125	0.7	379	3	208	1
Agriculture.....................	139	0.8	182	1	251	1
Coal industry	193	1.1	359	2	213	1
Water transport	54	0.3	31	-	44	-
Timber industry	44	0.2	35	-	48	-
Other.............................	546	2.7	508	3	507	3
Total gross loans and advances to customers.....................	**18,175**	**100**	**14,953**	**100**	**19,160**	**100**

Geographic Area

The following table sets forth the Alfa Banking Group's net loans to customers by geographic area as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
Region						
Russia	14,841	88.3	12,549	93.3	16,582	92.3
CIS (excluding Russia)	487	2.9	596	4.4	817	4.5
Europe	1,308	7.8	216	1.6	556	3.1
United States	10	0.1	8	0.1	13	0.1
Other	149	0.9	80	0.6	2	-
Total loans and advances to customers	**16,795**	**100**	**13,449**	**100**	**17,970**	**100**

Maturity

The following table sets forth the structure of the Alfa Banking Group's net loans to customers by their remaining contractual maturity, as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
Demand and less than one month	1,218	7.3	2,377	17.7	2,289	12.7
1-6 months	2,661	15.8	2,079	15.5	5,239	29.2
6-12 months	1,638	9.8	1,576	11.7	2,556	14.2
More than 1 year	11,278	67.1	7,417	55.1	7,886	43.9
Total loans and advances to customers	**16,795**	**100**	**13,449**	**100**	**17,970**	**100**

Currency

The Alfa Banking Group's loans and advances to customers comprise loans denominated in U.S. dollars, Roubles, Euros and other currencies. The following table provides a breakdown of the Alfa Banking Group's net loans and advances to customers by currency, as at 31 December 2010, 2009 and 2008:

	As at 31 December					
	2010		2009		2008	
	(U.S.$ millions)	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*
U.S. dollars	5,881	35.0	6,703	49.8	8,518	47.4
Roubles	10,207	60.8	6,023	44.8	8,099	45.1
Euros	702	4.2	645	4.8	1,250	7.0
Other Currencies	5	0.0	78	0.6	103	0.5
Total loans and advances to customers	**16,795**	**100**	**13,449**	**100**	**17,970**	**100.0**

Customer Concentration

The following table shows the Alfa Banking Group's ten largest non-bank borrowers (by gross loan exposure) as at 31 December 2010, which together accounted for 28.3% of the Alfa Banking Group's total gross loans and advances to customers, having decreased from 28.4% as at 31 December 2009.

		As at 31 December 2010
Customer	Industry	Loans
		(U.S.$ millions)
Customer 1	finance and investment companies, trade and commerce, telecommunications	1,427
Customer 2	power generation, chemistry and petrochemistry	505
Customer 3	power generation	461
Customer 4	military	429
Customer 5	nuclear industry	429
Customer 6	ferrous metallurgy	391
Customer 7	trade and commerce	389
Customer 8	construction	389
Customer 9	finance and investment companies	363
Customer 10	ferrous metallurgy	362
Total		**5,145**

The following table shows the Alfa Banking Group's ten largest non-bank borrowers (by gross loan exposure) as at 31 December 2009, which together accounted for 28.4% of the Alfa Banking Group's total gross loans and advances to customers. As at 31 December 2008, the Alfa Banking Group's ten largest non-bank borrowers accounted for 22.2% of the Alfa Banking Group's total gross loans and advances to customers.

		As at 31 December 2009
Customer	Industry	Loans
		(U.S.$ millions)
Customer 1	finance and investment companies	860
Customer 2	nuclear industry	585
Customer 3	railway transport	473
Customer 4	ferrous metallurgy	419
Customer 5	finance and investment companies	416
Customer 6	construction	334
Customer 7	finance and investment companies	304
Customer 8	railway transport	289
Customer 9	power generation	288
Customer 10	diamond extraction and processing	275
Total		**4,243**

Provision for Loan Impairment

Under modified risk management policies implemented during the crisis, the Alfa Banking Group conservatively assessed possible losses on the loans and advances to customers and created sufficient provisions to fully cover them, reduced lending to second tier borrowers and reduced lending limits for certain industries such as construction and railway transportation. At the same time maximum internal lending limits to certain top quality borrowers, which required lower provisioning, were increased. The following table shows movements in the Alfa Banking Group's provision for loan impairment for the year ended 31 December 2010.

	Corporate loans	**Finance lease receivables**	**Loans to SMEs**	**Advances on lease operations**	**Credit cards and Personal instalment loans**	**Mortgage loans**	**Consumer loans**	**Car loans**	**Total**
	(millions of US Dollars)								
Provision for loan impairment as at 1 January 2010............	**1,173**	**195**	**26**	**9**	**51**	**20**	**17**	**13**	**1,504**
Provisions during the year	316	62	(5)	(7)	8	7	35	6	422
Amounts written off as uncollectible	(375)	(50)	-	-	(40)	(16)	(27)	(14)	(522)
Translation movement....	(16)	(3)	(1)	-	(2)	(1)	(1)	-	(24)
Provision for loan impairment as at 31 December 2010	**1,098**	**204**	**20**	**2**	**17**	**10**	**24**	**5**	**1,380**

The following table shows movements in the Alfa Banking Group's provision for loan impairment for year ended 31 December 2009.

	Corporate loans	Finance lease receivables	Loans to SMEs	Advances on lease operations	Credit cards and Personal instalment loans	Mortgage loans	Consumer loans	Car loans	Total
					(millions of US Dollars)				
Provision for loan impairment as at 1 January 2009	**1,011**	**33**	**27**	**2**	**49**	**4**	**41**	**23**	**1,190**
Provisions during the year	277	163	-	7	116	16	23	26	628
Amounts written off as uncollectible	(89)	-	-	-	(110)	-	(43)	(34)	(276)
Disposal of subsidiary......	(3)	-	-	-	-	-	-	-	(3)
Translation movement	(23)	(1)	(1)	-	(4)	-	(4)	(2)	(35)
Provision for loan impairment as at 31 December 2009	**1,173**	**195**	**26**	**9**	**51**	**20**	**17**	**13**	**1,504**

The following table shows movements in the Alfa Banking Group's provision for loan impairment for year ended 31 December 2008.

	Corporate loans	Finance lease receivables	Loans to SMEs	Advances on lease operations	Credit cards and Personal instalment loans	Mortgage loans	Consumer loans	Car loans	Total
					(millions of US Dollars)				
Provision for loan impairment as at 1 January 2008	**269**	**13**	**8**	**-**	**37**	**1**	**32**	**21**	**381**
Provisions during the year	782	23	20	2	67	4	55	28	981
Amounts written off as uncollectible	(6)	-	-	-	(49)	(1)	(41)	(23)	(120)
Translation movement	(34)	(3)	(1)	-	(6)	-	(5)	(3)	(52)
Provision for loan impairment as at 31 December 2008	**1,011**	**33**	**27**	**2**	**49**	**4**	**41**	**23**	**1,190**

Related Party Transactions

The Alfa Banking Group traditionally has conducted and continues to conduct significant business with related parties. As at 31 December 2010, the Alfa Banking Group's loans and advances to customers included balances outstanding from related parties representing 7.9% and 5.0% of gross loans to customers and total assets, respectively, compared to 5.8% and 4.0% as at 31 December 2009. As at 31 December 2010, the Alfa Banking Group's credit related commitments to related parties amounted to 7.6% of total credit related commitments, compared to 4.0% as at 31 December 2009.

After the Alfa Banking Group restructured its Ukrainian operations in August 2006, the Alfa Banking Group started to treat its exposure to Alfa-Bank Ukraine as a related party transaction. During 2010 the Alfa Banking Group sold to Alfa-Bank Ukraine a number of non-performing loans that had been issued to Ukrainian corporate customers. All sales were conducted at the price of principal outstanding plus accumulated interest.

As at 31 December 2010, the Alfa Banking Group's on-balance sheet exposure to ABH Ukraine Group (including trading securities of U.S.$22 million, investment securities available for sale of U.S.$4 million, correspondent accounts of U.S.$2 million, term placements of U.S.$281 million and other receivables of U.S.$93 million) amounted to U.S.$402 million and credit related commitments to ABH Ukraine Group amounted to U.S.$40 million.

In July 2010, the Alfa Banking Group purchased from ABH Ukraine Group the rights to certain subordinated loans granted to Alfa-Bank Ukraine in an aggregate amount of U.S.$248 million. The loans carry fixed interest rate of 5.75% per annum, and are repayable in the 2016-2017 time period. The loan is guaranteed by ABH Russia Limited. Following this transaction, ABH Ukraine Group repaid approximately U.S.$140 million of its indebtedness to the Alfa Banking Group.

The ADA sub-holding was created in 2009 inside the Alfa Consortium for accumulating and managing non-core assets. These non-core assets consist mainly of assets received as a result of restructuring of problem loans initially originated by the Alfa Banking Group and then sold to ADA at fair value on an arm's length basis. ADA's assets are managed, under a Master Service Agreement, by a professional asset manager, A1 Group, which is also a member of the Alfa Consortium. Proceeds from the subsequent sale of these assets by ADA are to be used to repay such indebtedness to the Alfa Banking Group although any residual value received by ADA upon such sale will be attributable to the shareholders of ADA. As at 31 December 2010, the Alfa Banking Group had extended U.S.$904 million including loans and other receivables to ADA and its associates. This amount includes direct lending to ADA Group for the purchase of problem assets and loans to the problem borrower companies, which are currently either subsidiaries or associates of ADA Group.

The total amount maintained in customer accounts with the Alfa Banking Group by related parties as at 31 December 2010 was U.S.$1,927 million, which was 11.5% of the total customer accounts of the Alfa Banking Group, compared to U.S.$1,765 million and 12.9%, respectively, as at 31 December 2009 and U.S.$1,456 million and 11.6%, respectively, as at 31 December 2008.

Related parties are defined in accordance with IFRS—see Note 36 to the 2010 ABH Financial Consolidated Financial Statements included elsewhere in this Prospectus.

The following tables describe the related party transactions as at and for the years ended 31 December 2010, 2009 and 2008.

	As at 31 December					
	2010		2009		2008	
	(U.S.$ millions)	*(% of total)*	*(U.S.$ millions)*	*(% of total)*	*(U.S.$ millions)*	*(% of total)*
Trading securities and investments...........	288	8.1	136	4.7	211	22.1
Correspondent accounts and overnight placements with other banks and due from other banks...	330	7.5	328	11.7	43	2.2
Gross loans and advances to customers..........	1,427	7.9	865	5.8	768	4.0
Other financial assets (including derivatives) and other assets	170	22.3	64	12.1	239	15.3
Due to other banks	11	0.5	11	1.0	89	1.2
Customer accounts	1,927	11.5	1,765	12.9	1,456	11.6
Other financial liabilities (including derivatives) and other liabilities......	65	9.9	39	8.8	35	3.7
Guarantees issued .	88	6.1	65	8.2	87	12.5
Guarantees received............	729	N/A	419	N/A	-	N/A
Imports letters of credit.......	34	26.2	9	9.1	14	2.8

	As at 31 December					
	2010		2009		2008	
	(U.S.$ millions)	*(%) of total)*	*(U.S.$ millions)*	*(%) of total)*	*(U.S.$ millions)*	*(%) of total)*
Interest income	154	6.9	167	6.6	118	4.2
Interest expense	(37)	3.8	(41)	2.9	(56)	4.0
Fee and commission income..	73	16.7	28	8.3	36	8.6
Fee and commission expense	(10)	8.4	(1)	1.2	(2)	2.5
Gains less losses arising from trading securities......	1	1.4	(42)	N/A	34	N/A
Gains less losses from trading in foreign currencies	2	N/A	21	N/A	160	56.9
Other income	17	20.7	1	1.3	-	-
Other expenses	(55)	6.5	(50)	6.7	(30)	3.7

Refer to Note 36 to the ABH Financial Consolidated Financial Statements for the detailed information on related party transactions (including but not limited to the information on the key management compensation and transactions with investments performed with related parties).

The following tables set out information on the Alfa Banking Group's loans to customers, credit related commitments and customer accounts with respect to the main groups of related parties as at 31 December 2010, 2009 and 2008:

	As at 31 December		
Gross loans	**2010**	**2009**	**2008**
		(U.S.$ millions)	
TNK-BP	-	5	-
Alfa Group, its associates and its shareholders except for ABH Ukraine Group and ADA Group	584	536	763
Key Management	1	-	-
ADA Group and its associates	842	229	-
ABH Ukraine Group	-	95	5
Total..	**1,427**	**865**	**768**

	As at 31 December		
Guarantees issued	**2010**	**2009**	**2008**
		(U.S.$ millions)	
TNK-BP	28	57	77
Alfa Group, its associates and its shareholders except for ABH Ukraine Group and ADA Group	52	8	10
ABH Ukraine Group	8	-	-
Total..	**88**	**65**	**87**

	As at 31 December		
Customer Accounts	**2010**	**2009**	**2008**
		(U.S.$ millions)	
TNK-BP	262	249	92
Alfa Group, its associates and its shareholders except for ABH Ukraine Group and ADA Group	1,606	1,488	1,355
Key Management	6	3	3
ADA Group and its associates..........	46	16	-
ABH Ukraine Group	7	9	6
Total..	**1,927**	**1,765**	**1,456**

Capital Adequacy

Alfa Bank

Alfa Bank is required to comply with a number of mandatory economic ratios set by the CBR. In particular, the CBR establishes capital adequacy and risk diversification ratios.

In April 2005, the CBR repealed the general liquidity ratio (N5). See "*The Banking Sector and Banking Regulation in the Russian Federation*" for a more detailed discussion of these requirements.

The methods by which capital adequacy is calculated in Russia differ in some significant respects from the methods used in those countries that have adopted the BIS Guidelines. Alfa Bank is required to comply with the capital adequacy requirements of the CBR. For the purposes of calculating Alfa Bank's capital adequacy ratio in accordance with CBR requirements, the principal components of Alfa Bank's share capital and Alfa Bank's assets are divided into five categories with different risk weightings. Under Russian law, the minimum capital adequacy ratio that the banks are required to maintain is calculated (on an unconsolidated basis) as the ratio of a bank's owned funds (its capital) to the total amount of its risk weighted assets. The minimum capital adequacy ratio required by the CBR currently is 10% for banks whose capital is RUR180 million or more and 11% for banks whose capital is less than RUR180 million. If the capital adequacy ratio of a bank drops below 2%, then the CBR will revoke its banking licence.

Alfa Bank's capital adequacy ratio is calculated by Alfa Bank on the basis of the statutory RAR audited financial statements of Alfa Bank adjusted for post-balance sheet events (as prescribed by applicable CBR regulations) amounted to 10.4% as at 1 January 2009, 21.1% as at 1 January 2010 and 13.8% at 1 January 2011. For the purposes of calculating Alfa Bank's CBR capital adequacy ratios, Alfa Bank had equity capital of RUR 70,735.6 million as at 1 January 2009, RUR119,525.6 million as at 1 January 2010 and RUR103,987.0 million as at 1 January 2011. As an unregulated bank holding company, ABH Financial currently does not have an obligation to meet specific international or Russian regulatory capital ratios. See "*Operating and Financial Review of the Alfa Banking Group—Capital Adequacy*".

The following table sets out Alfa Bank's mandatory economic ratios calculated in accordance with the requirements of the CBR as at 1 January 2011, 2010 and 2009 and based upon statutory RAR Financial Statements:

	CBR minimum/ maximum ratio requirements	As at 1 January		
		2011	2010	2009
Mandatory Economic Ratios				
Capital adequacy ratio (N1)	N1 – Min 10	13.8	21.1	10.4
Bank liquidity ratios (N2, N3 and N4)......	N2 – Min 15	49.2	41.3	93.5
	N3 – Min 50	79.0	76.1	81.1
	N4 – Max 120	101.2	87.7	103.8
Maximum amount of risk per borrower or per group of related borrowers (N6)	N6 – Max 25	21.5	17.0	23.1
Maximum amount of large credit risks (N7)…..	N7 – Max 800	356.7	194.5	443.1
Maximum amount of loans, guarantees and sureties extended by the bank to its shareholders (N9.1)…	N9.1 – Max 50	0.0	0.0	0.0
Aggregate amount of exposure to the bank's insiders (N10.1)	N10.1 – Max 3	0.1	0.1	1.1
Ratio for the use of the bank's own resources (capital) to acquire participation interests in other legal entities (N12)...	N12 – Max 25	12.6	13.2	21.8

Note: All figures in percentages. In this table, "0.0" means that Alfa Bank had no exposure.

If Alfa Bank were required to calculate its capital adequacy based upon IFRS financial statements, according to the BIS Guidelines regarding solvency and capitalisation, then no assurances can be given that, without any appropriate remedial action, Alfa Bank's capital adequacy would satisfy such guidelines.

The Alfa Banking Group

The Alfa Banking Group meets international standards with respect to capital adequacy. Details of the Alfa Banking Group's capital adequacy as at 31 December 2010, 2009 and 2008, calculated in accordance with the BIS Guidelines and based upon the IFRS consolidated financial statements, are set out below:

	As at 31 December		
	2010	2009	2008
		(U.S.$ millions)	
Paid up share capital	1,265	1,265	945
Retained earnings and cumulative translation reserve and non-controlling interests (less goodwill)	1,665	1,282	1,134
Tier I Capital	2,930	2,547	2,079
Tier II Capital[1]	1,286	1,361	252
Total Capital	**4,216**	**3,908**	**2,331**
Risk weighted assets	23,186	19,375	25,333
Capital adequacy ratios			
Tier I capital adequacy ratio (%).......	12.6	13.1	8.2
Total capital adequacy ratio (%)[2]	18.2	20.2	9.2

Notes:

(1) Includes adjusted amount of subordinated debt, revaluation reserve for premises and equipment and fair value reserve for investment securities available for sale.

(2) Net available capital as a percentage of risk weighted assets.

Selected Financial and Other Ratios of the Alfa Banking Group

	Year ended 31 December		
	2010	**2009**	**2008**
Combined Key Ratios[3]			
Return on equity[1]	19.1%	3.2%	11.5%
Return on assets[5]	2.2%	0.3%	0.9%
Operating expenses/operating income before provision for loan impairment and other provisions[4]	44.3%	51.3%	36.6%
Provision for loan impairment for loans and advances to customers/gross loans and advances to customers ...	7.6%	10.1%	6.2%
Profitability Ratios[3]			
Operating expenses/net margin	64.4%	69.5%	58.9%
Profit/total assets[7]	1.9%	0.4%	0.9%
Balance Sheet Ratios[3]			
Customer accounts/total assets[8]	59.0%	63.2%	46.5%
Total net loans to customers/total assets[9]...................	59.0%	62.1%	66.4%
Total equity/total assets[10]...	10.8%	12.5%	8.0%
Liquid assets[2]/customer accounts[11]	44.12%	37.4%	48.9%
Liquid assets[2]/liabilities of up to one month[6]	150.04%	118.7%	83.7%
Capital Adequacy Ratios[3]			
Total capital adequacy ratio..	18.2%	20.2%	9.2%
Tier I capital adequacy ratio	12.6%	13.1%	8.2%
Credit quality ratios[3]			
Overdue loans to customers/total gross loans to customers...	4.7%	21.2%	10.8%
Provisions for loan impairment for loans to customers/overdue loans to customers	161.2%	47.5%	57.6%

Notes:

(1) Calculated as profit/average equity (calculated as sum of opening and closing balances divided by two).

(2) Liquid assets comprise cash and cash equivalents, due from other banks (with a maturity of less than one month), and trading securities and repurchase receivables relating to trading securities.

(3) Non-IFRS Measures are presented because ABH Financial considers them an important supplemental measure of ABH Financial's operating performance and financial position and believes they are used by securities analysts, investors and other interested parties in the evaluation of companies in ABH Financial's industry. Non-IFRS measures have limitations, and they should not be considered in isolation, or as a substitute for analysis of ABH Financial's operating results and financial position as reported under IFRS. ABH Financial compensates for the limitations of Non-IFRS measures by relying primarily on its IFRS operating results and using Non-IFRS measures only supplementally. See the ABH Financial Consolidated Financial Statements and information about ABH Financial included elsewhere in this Prospectus.

(4) Operating income equals profit before tax and before operating expenses.

(5) Calculated as profit for the year divided by average assets (calculated as sum of related opening and closing balances divided by two).

(6) The amount of liabilities of up to one month was extracted from the expected maturities analysis which is based on contractual maturities except that part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to baskets with later maturities. On the basis of past experience management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least these current/demand /settlement accounts would provide a long-term and stable source of funding for the Alfa Banking Group.

(7) Calculated as profit for the year divided by total assets as at 31 December of the respective reporting year.

(8) Calculated as customer accounts as at 31 December of the respective reporting year divided by total assets as at 31 December of the respective year.

(9) Calculated as total net loans and advances to customers as at 31 December of the respective reporting year divided by total assets as at 31 December of respective reporting year.

(10) Calculated as total equity as at 31 December of the reporting year divided by total assets as at 31 December of the respective reporting year.

(11) Customer accounts comprised customer accounts as at 31 December of the respective reporting year.

ABH Financial

Overview

ABH Financial (originally named Alfa Bank Holdings Limited) was incorporated as a private company with limited liability under the laws of the British Virgin Islands on 3 November 1995, and is the parent company of the Alfa Banking Group. In order to avail itself to the benefits of the EU regulated jurisdictions, effective 4 April 2011, ABH Financial changed its domicile from the British Virgin Islands to the Republic of Cyprus by transferring its registered office to Cyprus and continuing as a private limited liability company registered in Cyprus. ABH Financial's registered office is Themistokli Dervi, 5, Elenion Building, 2nd Floor, P.C. 1066, Nicosia, Cyprus. ABH Financial is registered with the Department of Registrar of Companies and Official Receiver of the Ministry of Commerce, Industry and Tourism of the Republic of Cyprus under No. 284510. Subject to certain exceptions, ABH Financial is authorised to engage in any act or activity that is not prohibited under the laws of the Republic of Cyprus. For a further description of ABH Financial, see "*Description of the Alfa Banking Group—History and Structure of the Alfa Banking Group*".

Management of ABH Financial

The business of ABH Financial is managed by the directors acting collectively as the Board of Directors in accordance to the provisions of the Articles of Association of ABH Financial. Since 4 April 2011, two directors manage the business affairs of ABH Financial. The Board of Directors may pass resolutions authorising ABH Financial to incur debt, mortgage its assets and issue debt instruments, debenture stock and other securities and generally to undertake any business activity within the objects clause of its Memorandum of Association and which is not by law required to be resolved upon by the shareholders in General Meeting. In addition, the Board of Directors may create various governing committees from time to time and appoint officers and agents of ABH Financial and may also convene general meetings of shareholders, see "*General Meetings*" below.

The current members of the Board of Directors of ABH Financial are Mr. Pavel Nazarian and Mr. Andriy Glavatskyy.

Born in 1972 in the former USSR, Pavel Nazarian received a Masters in Engineering from the Bauman State Technical University in Moscow in 1995 and Masters of Economics from Moscow's International Marketing and Management Academy in 1996. Before joining ABH Financial, he worked at CTF Holdings Ltd (Gibraltar) and Alfa Bank Holdings Ltd. (Gibraltar). He first began working for ABH Financial in 1999 and joined the Board of Directors in 1999.

The business address of Mr. Nazarian is 3, Boulevard du Prince Henri, L-1724 Luxembourg.

Born in 1977 in Ukraine, Andriy Glavatskyy is the Managing Director of Alfa Capital Holdings (Cyprus) Ltd and its UK branch. He supervises the day-to-day activities of ABH Financial. Mr. Glavatskyy joined the Alfa Banking Group in 2000. Before joining the Alfa Banking Group, he worked for several years in the banking industry in Kiev, Ukraine, specialising in equities trading. Mr. Glavatskyy is a graduate of the National State University of Economics, Kiev, Ukraine.

The business address of Mr. Glavatskyy is Dimostheni Severi 6, Kastellorizo Presidium, 3rd floor, CY-1080 Nicosia, Cyprus. Abacus Secretarial Limited has been a secretary of ABH Financial since 21 June 2010.

General Meetings

ABH Financial must in each year hold a general meeting of its shareholders as an annual general meeting in addition to any other meeting taking place in that year and each annual general meeting

shall take place not more than 15 months from the previous annual general meeting. The Board of Directors may call a meeting of the shareholders of ABH Financial as an extraordinary general meeting at such times and in such manner as the Board of Directors considers necessary or desirable. Upon the written request of shareholders holding not less than 10% of the issued and paid up share capital carrying a right to vote, the Board of Directors must convene a meeting of the shareholders and on default a meeting may be convened by such shareholders themselves.

The Companies Law, Cap 113 requires that at least 21 days written notice be given of an annual general meeting and any other general meeting at which a special resolution is proposed to be passed. All other extraordinary general meetings shall be called by at least 14 days' notice. Shorter notice may be agreed to by all shareholders entitled to attend and vote in respect of an annual general meeting or by shareholders representing not less than 95% of the nominal value of the shares giving a right to attend and vote at and in respect of an extraordinary general meeting. Resolutions may also be passed in writing in accordance to the provisions of the Articles of Association of ABH Financial provided that all shareholders sign the same.

Shareholders may vote by person or by proxy and all decisions, which do not by virtue of the Companies Law or the Articles of Association require a special majority decision, may be resolved by simple majority.

Auditors

The ABH Financial Consolidated Financial Statements, included in this Prospectus, have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors, as stated in their reports appearing herein. ZAO PricewaterhouseCoopers Audit is a member of the Russian Chamber of Auditors (Auditorskaya Palata Rossii).

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors of ABH Financial towards the Issuer, ABH Financial and/or Alfa Bank and their private interests and/or other duties.

Republic of Cyprus Legal Issues

Investors should note that the corporate affairs of ABH Financial are regulated by the laws governing companies in the Republic of Cyprus, including the Companies Law, Cap 113, and by ABH Financial's Memorandum and Articles of Association. ABH Financial is not subject to any licensing requirements in the Republic of Cyprus by reason only of the granting of the ABH Financial Deed of Guarantee.

Guarantee Validity Issues

Pursuant to the Contract Law, Cap 149, if it is found that the guarantee provided by ABH Financial was obtained by means of misrepresentation by the Issuer as creditor, or a misrepresentation which concerns a material part of the transaction and of which the Issuer had knowledge and assent, the guarantee may, on if proper findings are made by a court, be rendered invalid. If the guarantee is considered to extend to a series of transactions, "continuing guarantees" this may be revoked by ABH Financial as to future transactions, by notice given to the Issuer as creditor.

Republic of Cyprus Insolvency Issues

The primary legislation governing bankruptcy and insolvency proceedings in Cyprus is the Bankruptcy Law, Cap 5 ("**Bankruptcy Law**"), Part V of the Companies Law and the Insolvency Regulation[32].

The following would be taken into consideration in determining insolvency as a matter of Cyprus law: (i) the company has failed to comply with a statutory demand for payment served on it in accordance with the provisions of section 212(a) of the Companies Law; (ii) execution or process issued on a judgment, decree or order of a Cypriot court in favour of a creditor is returned wholly or partly unsatisfied; (iii) the value of its liabilities exceeds its assets (the "**balance sheet test**") or (iv) it is unable to pay its debts as they fall due (the "**cash flow test**").

In Cyprus, a company may be wound up (a) by the court (b) voluntarily by the creditors and (c) subject to the supervision of the Court.

A company may be wound up by the Court if (a) the company has by special resolution resolved that the company be wound up by the Court; (b) default is made in delivering the statutory report to the registrar or in holding the statutory meeting; (c) the company does not commence its business within a year from its incorporation or suspends its business for a whole year; (d) the number of members is reduced, in the case of a public company, below seven; (e) the company is unable to pay its debts; (f) the Court is of opinion that it is just and equitable that the company should be wound up.

A company shall be deemed to be unable to pay its debts in the following situations:

(a) if the company is indebted to a creditor, in a sum exceeding eight hundred and fifty four euro (Euro 854) which is due and has served on the company, by leaving it at the registered office of the company, a demand under his hand requiring the company to pay the sum so due and the company has for three weeks thereafter neglected to pay the sum or to secure or compound for it to the reasonable satisfaction of the creditor; or

(b) if execution or other process issued on a judgment, decree or order of any Court in favour of a creditor of the company is returned unsatisfied in whole or in part; or

(c) if it is proved to the satisfaction of the Court that the company is unable to pay its debts, and, in determining whether a company is unable to pay its debts, the Court shall take into account the contingent and prospective liabilities of the company.

Insolvency of ABH Financial and impact on guarantee

In winding up proceedings, it is possible that the creditors or liquidator of ABH Financial challenge the guarantee, as a fraudulent preference or on other grounds and such laws may permit a court, if it makes certain findings to:

(a) avoid or invalidate all or a portion of ABH Financial's obligations under the ABH Financial Deed of Guarantee;

(b) direct the recovery of any sums paid under the ABH Financial Deed of Guarantee to the Issuer or the Trustee for the benefit of the Noteholders[33];

(c) take any other action, which may result in detriment to you.

In order for an action to be initiated under fraudulent preference and other applicable principles, a court would need to find that, (i) the ABH Financial Deed of Guarantee was issued within six months before

[32] Council Regulation (EC) No 1346/2000 of May 29, 2000 on insolvency proceedings

[33] Section 302, Part V of the Company Law, Cap 113.

the commencement of winding up and (ii) that the dominant motive in the mind of ABH Financial as guarantor, acting by its director(s), was to prefer the creditor; or in the case of fraudulent trading that winding up proceedings have occurred and it appears that the granting of the guarantee was carried out with intent to defraud the creditors of ABH Financial, or for the purpose of fraudulently trading with the creditors, or for any fraudulent purpose.

Distribution of assets on winding up

Pursuant to the mandatory statutory order of distribution of assets provided by the Cyprus Company Law, Cap 113, in a winding up, the order for repayment is as follows:

(a) Costs of winding up: includes disbursements, liquidator's fees and appointed person's fees (auditors etc);

(b) Preferential debts: local taxes and government due within twelve months before liquidation, unpaid wages and social security contributions and personal injury (during working hours) compensations;

(c) Secured creditors: mortgages, debentures, liens and/or other fixed or floating charges;

(d) Unsecured creditors: ordinary creditors not falling in the category of secured creditors;

(e) Deferred debts: sums due to the shareholders such as dividends etc.

Governing Laws and Arbitration

The choice of English law as the governing law of the ABH Financial Deed of Guarantee is a valid and enforceable choice of law and would be recognized and given effect to in any action brought before a court of competent jurisdiction in the Republic of Cyprus, except for those laws (a) which such court considers to be procedural in nature, (b) which are revenue or penal laws or (c) the application of which would be inconsistent with public policy, as such term is interpreted under the laws of the Republic of Cyprus.

Submission to the London Court of International Arbitration ("**LCIA**") is a valid and enforceable choice and an arbitral award awarded by the LCIA court shall be given effect by the courts of Cyprus in accordance with the New York Convention on the enforcement of commercial arbitral awards and the laws of Cyprus on the enforcement of commercial arbitral awards.

The Issuer

Introduction

The Issuer was incorporated in Ireland on 8 November 2005, with registered number 410510 as a public company with limited liability under the Companies Acts 1963-2005 of Ireland (the "**Companies Acts**"). The registered office of the Issuer is 53 Merrion Square, Dublin 2, Ireland and phone number +353 1 614 6240.

The authorised share capital of the Issuer is €40,000 divided into 40,000 ordinary shares of par value €1 each (the "**Shares**"). The Issuer has issued 40,000 Shares, all of which are fully paid and are held on trust by TMF Management (Ireland) Limited (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") dated 7 December 2005, under which the Share Trustee holds the Shares on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

TMF Administration Services Limited (the "**Corporate Services Provider**"), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 7 December 2005 between the Issuer and the Corporate Services Provider (the "**Corporate Services Agreement**"), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least two months written notice to the other party.

The Corporate Services Provider's principal office is 53 Merrion Square, Dublin 2, Ireland.

Principal Activities

The principal objects of the Issuer are set out in Article 3 of its memorandum of association (as currently in effect) and permit the Issuer, amongst other things, to lend money and give credit, secured or unsecured, to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to make loans to Alfa Bank.

Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a public company under the Companies Acts, those related to: (1) the issue by the Issuer of US$225,000,000 8.625%. Loan Participation Notes due 2015 (which were issued for the sole purpose of financing a subordinated loan to Alfa Bank) on 9 December 2005 (the "**2005 LPN**")[34]; (2)

[34] The notes issued in connection with the 2005 LPN were redeemed by the Issuer in December 2010 pursuant to a call option.

the issue by the Issuer of US$300,000,000 8.635%. Loan Participation Notes due 2017 (which were issued for the sole purpose of financing a subordinated loan to Alfa Bank) on 22 February 2007 (the "**2007 LPN**"); and (3) the issue by the Issuer of U.S.$1,000,000,000 7.875%. Loan Participation Notes due 2017 on 24 September 2010 (the "**2010 LPN**") and those related to the issue of the Notes. The Issuer has no employees.

Directors and Company Secretary

The Issuer's Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors. The Directors of the Issuer and their business addresses as of the date hereof are as follows:

Sandra Berger	53 Merrion Square, Dublin 2, Ireland.
Ronan Reilly	53 Merrion Square, Dublin 2, Ireland.

The directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the directors is provided as part of the Corporate Service Provider's overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The directors of the Issuer may engage in other activities and have other interests, which may conflict with the interests of the Issuer.

The Company Secretary is TMF Administration Services Limited.

Capitalisation

The following table sets out the capitalisation of the Issuer as at the date of this Prospectus

Shareholders' Funds:

EUR

Share capital (Authorised: 40,000 Ordinary Shares of €1 each

Issued: 40,000 Ordinary Shares of €1 each)... 40,000

Total Capitalisation 40,000

Save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2010. Save for the issues of Notes described above, the 2007 LPN and the 2010 LPN and their related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Financial Statements

The Issuer publishes annual audited financial statements prepared in accordance with IFRS in respect of each financial year ending on 31 December. The Issuer does not prepare interim financial statements.

Each year, a copy of the audited statement of comprehensive income and statement of financial position of the Issuer together with the report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available there for inspection. The Issuer must hold one annual general meeting in each calendar

year (no more than nine months after the financial year-end) and the gap between annual general meetings must not exceed 15 months.

The auditors of the Issuer are PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1, Ireland who are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practise in Ireland.

General Information

The Issuer has obtained all necessary consents, approvals and authorisations in Ireland in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

The Banking Sector and Banking Regulation in the Russian Federation

Overview

Currently, the banking sector mostly offers services related to short term and mid term financing due to the historical instability of the Russian lending market and the difficulty borrowers face in providing adequate collateral.

According to the CBR, as of 1 January 2011, the total assets of the Russian banking sector were valued at approximately RUR33,805 billion, which represented a growth of 14.9% compared to 1 January 2010. The capital base of Russian credit organisations was valued at approximately RUR4,732.3 billion as of 1 January 2011. As of 1 January 2011, the total charter capital of Russian credit organisations was RUR1,186 billion, which represented a 2.4%growth, as compared to RUR1,244 billion as of 1 January 2010[35].

As at 1 January 2011, the total amount of individuals' deposits with Russian banks amounted to RUR9,818.0 billion (of which deposits in Roubles amounted to RUR7,918.5 billion and deposits in foreign currencies totalled RUR1,899.5 billion), as compared to RUR7,485 billion as at 1 January 2010. Corporate deposits with Russian banks as at 1 January 2011 amounted to RUR6,035.6 billion (of which deposits in Roubles amounted to RUR3,541.2 billion and deposits in foreign currencies totalled RUR2,494.4 billion), as compared to RUR5,466.6 billion as at 1 January 2010[36].

The remaining sources of growth of the banking sector's funding base are the increasing volumes of debt security issues (primarily promissory notes) and interbank credit operations, amounting to RUR1,335.2 billion and RUR3,754.9 billion as at 1 January 2011, respectively, as compared to RUR1,161.3 billion and RUR3,117.3 billion in as at 1 January 2010, respectively. The amount of funds attracted from individuals and corporate entities through the issue of promissory notes and bank acceptances totalled RUR797.3 billion as at 1 January 2011[37].

As at 1 January 2011, the total amount of loans in Roubles provided by Russian banks to their customers increased to approximately RUR15,600.9 billion (of which loans in the amount of RUR3,725.2 billion were provided to individuals and loans in the amount of RUR10,773.9 billion were provided to corporate customers) as compared to RUR13,326.6 billion as at 1 January 2010. The total amount of loans provided by Russian banks in foreign currencies amounted to RUR5,936.4 billion as at 1 January 2011 (of which loans in the amount of RUR359.6 billion were provided to individuals and loans in the amount of RUR3,756 billion were provided to corporate customers) as compared to RUR5,853 billion as at 1 January 2010[38].

History of the Russian Banking Sector and Banking Statistics

Under the Soviet regime, the former State Bank of the USSR, or Gosbank, (the predecessor of the CBR) allocated resources from the Russian Government's budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with the relaxation of controls over companies and interbank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

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[35] Source: Central Bank of Russia

[36] Source: Central Bank of Russia

[37] Source: Central Bank of Russia

[38] Source: Central Bank of Russia

In 1988 and 1989, during the second phase of the reform, regional commercial banks (primarily in the form of cooperatives or joint stock companies) began to rapidly emerge (with initial capital between RUR500,000 and RUR300 million). By the beginning of 1992, 1,500 licences had been granted to banks.

In 1991, three of the specialised state dependent banks were transformed into joint-stock companies and some regional branches became independent from their head offices through management buyouts.

The CBR assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December of that year.

Between 1991 and 1998 the Russian banking sector experienced rapid growth. The number of commercial banks in Russia increased from 358 in 1990 to 2,538 in 1996. On 17 August 1998, the Russian financial market suffered a serious crisis in part as a result of the Asian financial crisis that began in 1997, causing major concerns over the liquidity and solvency of the market as a whole. In connection with the crisis, the Government defaulted on its sovereign debt and the CBR announced a gradual devaluation of the Rouble, the imposition of a repayment moratorium on certain loans to foreigners and the compulsory restructuring of approximately U.S.$40 billion of short-term treasury instruments. Many banks went into bankruptcy or fell under the administration of the Agency for Restructuring of Credit Organisations ("**ARCO**"). However, due to the stabilisation of the Russian banking sector, the importance of ARCO as the administrator of credit organisations undergoing financial restructuring has decreased. On 18 October 2003, the last of such credit organisations was withdrawn from ARCO's administration, and pursuant to Federal Law No. 87-FZ "*On abolition of Federal Law "On Restructuring of Credit Organisations" and certain provisions of legal acts of the Russian Federation and on the liquidation procedure of state corporation "Agency for Restructuring of Credit Organisations"* of 28 July 2004 (the "**ARCO Liquidation Law**"), ARCO itself was liquidated. Pursuant to the ARCO Liquidation Law and Federal Law No. 177-FZ *"On Insurance of Deposits of Individuals in Banks in the Russian Federation"* of 23 December 2003 (the "**Deposit Insurance Law**"), the assets of ARCO were transferred to the Deposit Insurance Agency.

Since the 1998 financial crisis, the number of credit organisations operating in Russia has fallen, to 1,586 as at 1 July 2004. The 1998 financial crisis revealed the lack of proper controls in the banking sector and increased public concerns over the integrity of the banking system, in particular, concerns regarding misleading advertising, money laundering and corruption.

Further, the Russian banking sector experienced instability and a liquidity deficit in 2004 resulting from the actions taken by the CBR and a crisis of confidence among Russian banking customers. From May to July 2004, the CBR revoked the banking licences of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the interbank lending market and to liquidity pressures for many Russian banks. The collapse of a number of Russian banks caused panic among depositors, and even the more reliable, larger banks experienced depositor withdrawals and liquidity problems as banks were unable to attract funds on the interbank market or from their client base. In 2004, the Russian banking sector experienced instability, which resulted in a crisis of confidence towards Russian banks by their customers. The CBR took effective steps to reverse the trend. The rate of mandatory reserves that banks were required to deposit with the CBR was temporarily reduced from 7% to 3.5%. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves. Accordingly, banks' borrowing costs have been reduced. In addition, legislation was passed to combat the crisis and to minimise potential losses of private depositors. In accordance with amendments to Federal Law No. 86-FZ "*On the Central Bank of the Russian Federation (Bank of Russia)*" of 10 July 2002 (the "**Central Bank Law**") enacted in 2004, the CBR is required to make payments to private depositors of insolvent Russian banks if such banks have

not been admitted to the system of private deposit insurance prior to their bankruptcy. The CBR is also able to impose, for the term of one year, a limit on the interest rates on deposits paid by banks to private depositors. In addition, banks are required to disclose certain information related to the interest rates on deposits, banks' liabilities in respect of deposits and amounts of cash withdrawals by private depositors. Since 2007, disclosure of effective interest rate is a precondition to grouping the loans in portfolios for the purposes of calculation of loss allowances (but later this provision was abolished). Since April 2008, banks are required to disclose all costs that may be associated with obtaining a bank loan by an individual.

In the second half of 2008, in response to the global credit crisis and its impact on the Russian banking system and overall economy, the Russian authorities and the CBR introduced certain measures intended to prevent bankruptcy of credit organisations. These measures were taken in accordance with Federal Law No. 175-FZ "*On Additional Measures for Strengthening the Stability of the Banking System for the Period until 31 December 2011*" dated 27 October 2008, as amended (the "**Banking System Stability Law**") and decisions taken in September and October 2008 prior to the effective date of this law. The number of credit organisations subject to such measures increased from seven (with assets of 576.2 billion Roubles, or 2.3% of the total assets of Russian credit organisations) as of 1 November 2008 to 20 (with assets of 749.2 billion Roubles, or 2.7% of the total assets of Russian credit organisations) as of 1 January 2009, but then decreased slightly to 14 (with assets of 779.2 billion Roubles, or 2.3% of the total assets of Russian credit organisations) as of 1 February 2011.

The Banking System Stability Law envisages that the Deposit Insurance Agency will assist distressed banks through: (a) attracting investors for credit organisations, which are experiencing financial difficulties; and (b) liaising with the CBR regarding the provision of financial assistance to such credit organisations.

The Banking System Stability Law expands the list of bankruptcy prevention measures available for Russian credit organisations under the Bank Insolvency Law by introducing the following additional procedures:

- provision of financial assistance to private investors that have agreed to acquire a controlling stake in a credit organisation in distress;
- financial assistance to other credit organisations that have agreed to acquire certain assets and obligations of a credit organisation in distress;
- acquisition of a controlling stake in a credit organisation in distress directly by the Deposit Insurance Agency (if there is no investor willing to participate in rehabilitation proceedings);
- provision of financial assistance to a credit organisation in distress subject to acquisition of a controlling stake in such credit organisation by either a private investor or the Deposit Insurance Agency;
- making arrangements for public sale of the assets securing obligations of a credit organisation owed to its creditors, including the CBR; and
- appointment of the Deposit Insurance Agency by the CBR to act as temporary administrator in relation to a credit organisation.

The decision as to whether bankruptcy prevention measures should be launched in respect of a particular credit organisation rests with the CBR.

The analysis of the financial position of a credit organisation for the purpose of provision of state support to it will be performed by the CBR and the Deposit Insurance Agency. Based on the results of the analysis the Deposit Insurance Agency will develop a rehabilitation plan for that credit organisation which will then need to be approved by the CBR.

According to the Deposit Insurance Agency website, as of 1 March 2011 the CBR and the Deposit Insurance Agency have launched rehabilitation measures in respect of 18 organisations[39]. For further information on legislative and governmental measures adopted in 2008 and 2009 in response to the global financial crisis, see "*Measures to Support the Liquidity and Solvency of Russian Banks and Legal Entities since October 2008*".

Current Competitive Landscape

The banking sector in the Russian Federation is highly fragmented and competitive. As at 1 January 2011, according to the CBR, there were 1,012 banks and non-banking credit organisations operating in the Russian Federation. However, at 31 December 2010, the five largest banks accounted for 47.7% of the total value of banking assets in the Russian Federation, and the twenty largest banks accounted for 68.6%, according to the CBR[40].

A number of the country's largest banks are part of financial industrial groups, and as such undertake transactions for related parties. Approximately 50% of banks operating in Russia are located in the Moscow region and have a limited regional presence, accounting for approximately 64% of sector assets[41]. Only a small number of banks in Russia have a broad presence across Russia, including Sberbank, VTB and Rosbank (which is part of the Société Générale Group). The following table sets out market share data for the ten largest banking groups by total assets (according to RAR) as of 31 December 2010.

[39] Source: Deposit Insurance Agency (www.asv.org.ru)

[40] Source: Central Bank of Russia

[41] Source: Central Bank of Russia

	Rank	Total Assets RUR billion	% Market share
Sberbank	1	9145.2	27.7%
VTB[(1)]	2	2822.2	8.5%
Gazprombank	3	1874.1	5.7%
Rosselkhozbank	4	1080.1	3.3%
Bank of Moscow[(1)]	5	954.2	2.9%
VTB 24	6	937.8	2.8%
Alfa Bank	7	880.2	2.7%
Unicredit	8	684.0	2.1%
Raiffeisen	9	509.7	1.5%
Promsvyazbank	10	504.5	1.5%
Total (Top 10)		19,392.0	58.7%
Total (Top 100)		29,295.2	88.7%

Source: www.banki.ru

(1) On 22 February 2011, VTB reported the acquisition of 46.48% of Bank of Moscow. VTB is planning to increase its stake in Bank of Moscow to 100%. Source: VTB (www.vtb.ru)

The presence of foreign-owned banks in the Russian market is relatively limited. Historically, foreign controlled banks have primarily serviced multinational firms operating within the Russian Federation and conducted inter-bank operations. More recently, these banks have increased their presence in Russian retail banking and have increased their loan portfolio in several sectors of the economy. The level of foreign investment in the Russian banking sector remains relatively low, with foreign banks accounting for 28.1% of statutory capital as of 1 January 2011, according to the CBR, compared to 24.53% as of 1 January 2010[42].

Due to the large number of Russian banks and the diversity in their lines of business, the Alfa Banking Group faces competition from different banks for the various business sectors and geographic locations in which it operates. The majority of the Alfa Banking Group's national competitors are based in Moscow, although a few have regional branch networks, including Sberbank, which has a branch network across the Russian Federation. In the regions outside Moscow, the Alfa Banking Group competes with Moscow-based banks in addition to regional banks.

In the Russian retail banking market, the Alfa Banking Group's principal competitors are Sberbank, VTB 24, Raiffeisenbank, Bank of Moscow, Citibank, Russian Standard Bank, Home Credit and Finance Bank, as well as a number of other national and regional banks and Russian subsidiaries of foreign banks.

In the Russian corporate banking market, the Alfa Banking Group principally competes with Sberbank, VTB, Gazprombank, Bank of Moscow, UniCredit Bank, Petrocommerce and Rosbank, as well as a number of other national and regional banks and certain of the world's largest international banks. In the investment banking sector, the Alfa Banking Group's primary competitors are Troika Dialog, Renaissance Capital and VTB, and foreign investment banks.

According to the Alfa Banking Group's calculations, based upon published CBR statistics, as at 31 December 2010, it had by value a 5.5% market share in terms of retail demand deposits, 3.6% market

[42] Source: Central Bank of Russia

share in corporate accounts and a 2.8% market share in corporate loans. As at 1 January 2011, the Alfa Banking Group's assets accounted for approximately 2.4% of the assets of the Russian banking sector (under RAR) according to the Alfa Banking Group's calculations based upon published CBR statistics.

Structure of the Russian Banking Sector

The Russian banking sector consists of the CBR, credit organisations and branches and representative offices of foreign banks. Credit organisations, in turn, consist of banks, which provide a wide range of banking services, and non-banking credit organisations, which provide only limited banking services, such as maintaining accounts and making payments. As at 1 January 2011, the number of credit organisations operating in the Russian Federation amounted to 1,012. However, poor corporate governance, risk management, transparency and weak management remain widespread among many Russian banks.

State-owned banks continue to play a key role in the development of the Russian banking sector. State owned banks offering retail banking services include Sberbank and VTB. Other state owned banks focus primarily on operations with budgetary funds and participate in the realisation of governmental programmes (for example, Rosselkhozbank (Russian Agricultural Bank) and Roseximbank (Russian Export Import Bank)).

Although it is not possible for foreign banks to directly conduct business on the Russian financial market, many major foreign banks have subsidiary banks in the Russian Federation. The presence of foreign owned banks in the Russian market is relatively limited as their activities have been restricted in order to protect the nascent Russian banks. Foreign owned banks must satisfy additional requirements in connection with obtaining a licence, for example, there must be a degree of reciprocity in the home country of the foreign bank. The aggregate level of participation of foreign capital within the Russian banking system is determined by federal law as proposed by the Russian Government in conjunction with the CBR. At the moment, however, such law has not been yet adopted. As at 1 January 2011, the number of credit organisations operating in Russia with a 100% foreign participation amounted to 80, and with a foreign participation in the amount from 50 to 100% amounted to 31[43].

Role of the CBR

The CBR is the primary authority responsible for the regulation of banking institutions in Russia and also acts as Russia's central bank.

Until 2002, the CBR had been operating under the general terms of reference of Federal Law "*On the Central Bank of the Russian Federation (the Bank of Russia)*" of 2 December 1990 as amended on 26 April 1995. In 2002, this law was superseded by the Central Bank Law. According to the Central Bank Law, the State cannot be liable for the CBR's obligations, nor can the CBR be liable for the State's obligations unless the relevant liability has been undertaken or is required by law. The CBR's property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR's governing bodies are the Board of Directors and the National Banking Council, a collective management body carrying out certain governing functions, which were solely vested in the Board of Directors prior to adoption of the Central Bank Law (including, among other things, making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR's chief auditor, approval of the CBR's accounting rules and requirements). The structure of the CBR comprises the Moscow Head Office, a number of regional branches in constituent entities of the Russian Federation (in some of the Russian republics the CBR's regional branches are called National

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[43] Source: Central Bank of Russia

Banks) and local branches. The Chairman of the CBR's Board of Directors is appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament), on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in meetings of the Russian Government (Cabinet). The Ministers (or Deputy Ministers, as the case may be) of Finance and of Economic Development and Trade have the right to participate in meetings of the CBR's Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and the Government of the Russian Federation. The Chairman of the CBR is a member of the National Banking Council ex officio.

Under the Central Bank Law, Federal Law No. 395-1 *"On Banks and Banking Activities"* as of 2 December 1990, as amended (the "**Banking Law**") and Federal Law No. 173-FZ "*On Currency Regulation and Currency Control*" of 10 December 2003 (the "**Currency Control Law**"), the CBR is authorised to adopt implementing regulations on various banking and currency control issues. The CBR has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

Under current legislation, the CBR has the following major functions:

Function	Summary
Issue of money and regulation of circulation	The CBR is the sole issuer of Russian Rouble banknotes and regulates their circulation. The CBR plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash. However, the CBR is prohibited from issuing money for purposes of budget deficit financing.
Financing/Monetary policy	Refinancing of banks by way of granting credits; fixing reserve requirements for the banks; setting capital adequacy and other mandatory economic ratio requirements for banks. The CBR is prohibited from extending credits to the government for the purposes of budget deficit financing.
Transactions and deals with banks	Rendering decisions on the state registration of banks, registering securities issued by banks; extending credit to banks; maintaining correspondent accounts of banks in Roubles; providing banks with guarantees; purchase and sale of Russian state securities, CBR bonds, certificates of deposit, precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies and payment documents in foreign currencies issued by Russian and foreign banks. Unless otherwise directly provided in federal laws, the CBR is not permitted to participate in the charter capital of banks.
Federal budget implementation and external debt service	Extending credits to the Ministry of Finance; acting as a placement agent with respect to government securities issued by the Ministry of Finance; budget

	accounts administration. Exchange control regulation of dealing and settlements in Roubles; regulation of foreign currency operations; administration of the gold and currency reserves; establishment of regimes for Rouble and foreign currency accounts of residents and non-residents in Russia.
Licensing	Issuance, suspension and revocation of banking licences to banks.
Control and supervision	Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 1%) stakes in banks; assessment of financial standing of banks' founders (shareholders/ participants).

Regulation

Banking activities in Russia are broadly governed by the Banking Law and the Currency Control Law. The CBR supervises banks in various aspects (as outlined below) and a number of other institutions have an indirect influence over Russian banks. The FSFM issues licences to banking institutions acting as professional participants of the Russian securities market. In accordance with Federal Law No. 135 FZ "*On Competition Protection*" of 26 July 2006 which came into effect at the end of October 2006, the Federal Antimonopoly Service of the Russian Federation (the "**FAS**") regulates mergers and acquisitions of stakes in excess of 25, 50 and 75% of the total voting shares in credit organisations established in the form of joint stock companies, participation interests representing one third, half and two thirds of the charter capital of credit organisations established in the form of limited liability companies and acquisitions of certain shares of credit organisations' assets or rights to determine conditions relating to their activities. In addition, CBR approval is required for the acquisition of or setting up of a trust management over stakes in excess of 20% of total voting shares in Russian credit organisation and, where more than 1% of share capital of a bank is purchased or trust management over such shares is created, the CBR should be notified of such acquisition or actions. Tax authorities supervise tax assessments of banks. Other governmental authorities are largely inactive in relation to banks. The Association of Russian Banks, comprising, as at 17 March 2011, 709 members, including 536 member credit organisations, was established pursuant to the provisions of the Banking Law as a non commercial self regulatory organisation. It offers various types of technical support to its members and lobbies the interests of banks in all branches of power. Set out below are some of the principal features of the regulatory regime governing banks in Russia.

Licensing

A licence must be obtained from the CBR in order for any institution to engage in banking activity as defined in the Banking Law. Applicants must be incorporated within Russia and registered with the CBR as a credit organisation, and submit *inter alia* a feasibility report and detailed information on the suitability of the applicant's management team. A banking licence may be denied for a number of reasons, including if the financial standing of the founders of the bank is deemed by the CBR to be unsatisfactory or if the proposed candidates for the senior management of the bank, including members

of the management board and the chief executive officer, are deemed to be unsuitable or do not meet the qualification requirements.

Additional requirements have been introduced for obtaining a licence for taking deposits from individuals. The licence could be granted to a bank being a member of the Deposit Insurance System existing for more than two years from the date of its registration. Such requirement may be dispensed with if (a) the charter capital of a newly established bank or the regulatory capital of a bank is not less than RUR 3,600 million, and (b) the bank complies with the CBR's requirement to publicly disclose all information relating to persons having significant influence over decisions made by the bank's management bodies.

Pursuant to the Banking Law, a bank's licence may be revoked by the CBR if: (a) the information upon which the licence has been issued is untrue and misleading; (b) the bank delays the commencement of its operations for more than one year from the issue of the licence; (c) reporting statements submitted by the bank turn out to be materially untrue and misleading; (d) the bank delays submission of its monthly reports to the CBR for more than 15 days; (e) the bank conducts banking operations (or a single operation) not permitted by its licence; (f) the bank's activities do not comply with Russian banking or anti-money laundering legislation or regulations of the CBR and the bank has been subject to sanctions for such breaches/non-compliance before that; (g) multiple failures, whether intentionally or by negligence, to carry out bailiffs orders requiring seizure of funds in customers accounts; (h) in cases of insolvency, the revocation of the banking licence is requested by the temporary administration appointed to the bank; (i) the bank repeatedly fails to submit updated information required to be reflected in the State register of legal entities; or (j) a bank involved in mortgage-backed asset management operations does not comply with Russian mortgage-backed securities legislation and the bank has been subject to sanctions for such breaches/non-compliance before that.

The CBR must revoke a bank's licence if: (a) its capital adequacy ratio falls below 2%; (b) its regulatory capital is less than its minimal charter capital as set by the CBR; (c) the bank fails to adjust its charter capital to its regulatory capital according to CBR requirements within 45 days of CBR notification; (d) the bank fails to satisfy the claims of its creditors or make mandatory payments (e.g., taxes and duties) amounting to an aggregate minimum of RUR100,000 within 14 days of their maturity; or (e) the amount of the bank's regulatory capital is less then a certain statutory threshold during a certain defined period of time.

Mandatory Economic Ratios

The CBR is authorised to introduce various capital adequacy and liquidity requirements applicable to banks and, as the case may be, to banking groups in order to ensure the integrity of the banking system. Such requirements currently exist in the form of the relevant mandatory economic ratios described in CBR Instruction No. 110-I "*On the Banks' Mandatory Economic Ratios*" of 16 January 2004. Set out below is the system of the mandatory economic ratios, which banks are, required to observe on a daily basis.

Mandatory Economic Ratios	Description of Mandatory Economic Ratios	CBR Maximum/Minimum Mandatory Economic Ratio Requirements
Capital adequacy ratio (N1)	This ratio is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base necessary to cover	Minimum 11% (where a bank's capital base is below RUR180 million) and minimum 10% (where a bank's capital base is equal to or more than RUR180

	credit, market and operational risks. It is formulated as a ratio of the size of the bank's capital base to the amount of its risk-weighted assets.	million).
Instant liquidity ratio (N2)	This ratio is intended to limit the risk of a bank's liquidity loss within one operational day. It is formulated as the minimum ratio of a bank's highly-liquid assets to the amount of the bank's liabilities payable on demand.	Minimum 15%
Current liquidity ratio (N3)	This ratio is intended to limit the risk of a bank's liquidity loss within 30 calendar days preceding the date of the calculation of this ratio. It is formulated as the minimum ratio of the bank's liquid assets to the amount of the bank's liabilities due in less than 30 calendar days.	Minimum 50%
Long-term liquidity ratio (N4)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity as a result of the placement of funds into long-term assets. It is formulated as the maximum permitted ratio of a bank's credit claims maturing in more than one year, to a bank's capital base and liabilities maturing in more than one year.	Maximum 120%
Maximum exposure to single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers. It is formulated as the maximum ratio of the aggregate amount of a bank's claims to a borrower or a group of related borrowers to a bank's capital base.	Maximum 25%
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks. It is formulated as the maximum ratio of the aggregate amount of major credit risks to the size of a bank's capital base.	Maximum 800%

Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's shareholders. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its shareholders, to the bank's capital base.	Maximum 50%
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (i.e. individuals capable of influencing the bank's credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims to its insiders, to the bank's capital base.	Maximum 3%
Ratio for the use of the bank's capital base to acquire shares (participation interest) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is formulated as the maximum ratio of a bank's investments in shares (participation interest) of other legal entities, to a bank's capital base.	Maximum 25%

The capital base of a bank is defined in CBR regulations as the aggregate amount of its fixed capital (including, *inter alia*, its charter, paid in capital, certain reserve funds and approved profits) and additional capital (including, *inter alia*, revaluation surpluses, subordinated loans and preferred shares) decreased by certain mandatory reserves and other amounts.

Also, in accordance with CBR Instruction No. 112-I of 31 March 2004, banks issuing mortgage backed bonds are required to additionally comply with the following mandatory economic ratios: (a) a minimum ratio of issued mortgage loans to a bank's capital base (N17, minimum 10%); (b) a minimum ratio of the amount of the "mortgage coverage" to the amount of issued mortgage backed bonds (N18, minimum 100%); and (c) a maximum ratio of the aggregate amount of a bank's liabilities to creditors having a priority right to satisfy their claims, to the bank's capital base (N19, maximum 50%).

Charter Capital Requirements

The Banking Law sets out (a) the minimum charter capital for newly-established banks in Russia the amount of RUR180 million and (b) the minimum regulatory capital for existing banks and non-banking credit organisations seeking to become banks amounts to RUR180 million.

Further, pursuant to the Banking Law, the minimum regulatory capital for banks applying for a general banking licence to RUR900 million. It also requires the gradual increase of the net worth (capital) by banks that had a regulatory capital of less than RUR180 million as of 1 January 2007 (such banks were allowed to continue their banking activities provided their net worth (capital) reached at that date

would not further decrease). Their net worth (capital) must be at least (a) RUR90 million as of 1 January 2010, and (b) RUR180 million as of 1 January 2012. Failure to comply with this requirement will result in revocation of the banking licence.

Reporting Requirements

Russian banks must regularly submit balance sheets to the CBR, together with financial statements showing their actual respective financial positions. They must also inform the CBR in respect of providing large loans (exceeding 5% of a bank's capital). Banking groups (i.e. alliances of banks in which one bank directly or indirectly controls decisions of the governing bodies of other banks within the alliance) and consolidated groups (i.e. alliances of legal entities in which one bank, directly or indirectly, is controlled by a non-banking entity) must regularly submit consolidated accounts to the CBR. The CBR may at any time carry out full or selective checks of a bank's submissions, and may inspect all books and records of the bank. In addition, annual audits must be carried out by a licensed audit company. Starting in 2004, all credit organisations in Russia have been required to prepare financial statements according to both RAR and IFRS. Banks must file audited IFRS consolidated and standalone annual accounts with the CBR on an annual basis.

Mandatory Reserve Deposit Requirements

To cover loan losses and currency, interest and financial risks, banks are required to comply with the CBR requirements for the formation of mandatory reserve deposits. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. Banks are currently required to post compulsory reserves to be held on non interest bearing accounts with the CBR. To stabilise the situation on the local financial market and to support the liquidity of the Russian banking sector, the CBR decreased in October 2008 mandatory reserves for various obligations of credit organisations to 0.5% and successively increased them starting from 1 May 2009 (with the latest three increases taking place in the first quarter of 2011) to the current 4.0% for the banks' obligations to individuals and other obligations in Roubles or foreign currency and to 5.5% for the banks' obligations to non-resident legal entities in Roubles or foreign currency.

The mandatory reserves are calculated by banks in accordance with CBR Regulation No. 342-P dated 7 August 2009 and Regulation No. 2601-U dated 25 March 2011 (the "**Reserves Regulations**"). The Reserves Regulations require the banks to promptly report to the CBR and its regional units at the end of each calendar month with calculation of reserves and to promptly post additional reserves, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to monitor their compliance with the reserve rules. The Reserves Regulations do not require the creation of reserves for certain long-term borrowings, although it requires posting of reserves for obligations to non-resident banks.

If a bank does not comply with the mandatory cash balance requirements, the CBR may impose a fine and directly debit the bank's correspondent account with the CBR in respect of the shortfall in reserve amounts.

Provisioning

The CBR established certain rules concerning the creation of loan impairment provisions for loans extended by banks. Since 1 August 2004, Russian credit organisations are required to calculate and establish their loan impairment provisions in accordance with Regulation No. 254-P "*On the Procedure for the Establishment by Credit Organisations of the Reserves for Possible Losses from Loans, Loan Debts and those Equated to them*" of 26 March 2004 (the "**Regulation No. 254-P**"). The Regulation No. 254-P introduced a number of rules, which purport to make loan impairment provisioning compliant with the BIS requirements. In particular, it requires credit organisations to rank their loans

into five categories. The range of loans that must be provided for has been extended to include assigned rights under contracts, financial leasing operations, mortgages acquired in the secondary market, rights under repo contracts (if the securities transferred under such repo transactions are unlisted) and various other operations. It has been established that loans classified as Category I loans (standard loans) do not need provisions. In addition, credit organisations will be required to classify their loan security into two groups on the basis of its quality.

Pursuant to the Regulation No. 254-P, the debt servicing level of a loan to a legal entity is considered to be good if the aggregate loan or interest repayment arrear does not exceed 5 days (in respect of loans granted to legal entities) and 30 days (in respect of loans granted to individuals) for the last 180 calendar days. The debt servicing level of a loan to a legal entity is considered to be bad in cases if, *inter alia*, the aggregate loan or interest repayment arrear exceed 30 days (in respect of loans granted to legal entities) and 60 days (in respect of loans granted to individuals) for the last 180 calendar days. In addition, restructuring of a loan (including change of the loan nominal currency and time periods for repayment of the loan and interest) may affect the debt servicing level.

The CBR also established rules concerning creation of provisions for loans other than loan impairment, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward contracts and other transactions. CBR Instruction No. 283-P of 20 March 2006 requires banks to rank such assets and operations into five categories of quality reflecting the following situations: (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100% Banks must report to the CBR within eight business days (or within seventeen working days in the case of certain large credit organisations) following the reporting month on the amount of non loan impairment provisions it had created that month. The CBR and its regional units are responsible for monitoring bank compliance with these rules.

Pursuant to the CBR Directive No. 1584-U of 22 June 2005, mandatory provisions must also be created for operations with residents of certain off-shore jurisdictions in the amount of 25% or 50% depending on the jurisdictions involved.

Regulation of Currency Exposure

In CBR Instruction No. 124-I "*On the Establishment of the Amounts (Limits) of the Open Currency Positions, on the Methods of their Calculation and Particularities of Lending Organisations' Control and Compliance therewith*" of 15 July 2005, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "**currency exposure**"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into Roubles in accordance with the official exchange rates and CBR's prices for precious metals.

The CBR established that at the end of each operation day the total amount of all long or short currency positions should not exceed 20% of a bank's capital base. At the same time, at the end of each operation day the long or short positions with respect to one particular currency or precious metal should not exceed 10% of a bank's capital base.

Accounting Practices

The CBR has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accounts in accordance with *Directive of the CBR No. 2332-U "On the checklist, blanks and the procedure for the filling in of and delivery of reporting statements to the CBR of 12 November 2009 and* Directive of the CBR No. 1375-U "*On the Rules for the Preparation and Submission of Reports to the CBR by Credit Organisations*" of 16 January 2004. Despite certain differences, such financial statements represent an approximation to IFRS.

Annual financial statements may be published only after their certification by an independent auditor. Quarterly financial statements may be published without such certification by an independent auditor.

Starting from 1 January 2004, all credit organisations are also required to prepare their accounting reports in accordance with IFRS and those reports should be audited.

Anti-Money Laundering Legislation

Russia, as a member of the Financial Action Task Force ("**FATF**"), has developed and enacted certain anti-money laundering legislation. The basic Russian anti-money laundering law is Federal Law "*On Combating Legalisation (Laundering) of Criminally Gained Income and Financing of Terrorism*" No. 115-FZ dated August 7, 2001 (as amended) (the "**Anti-Money Laundering Law**"). The Anti-Money Laundering Law follows the FATF Forty Recommendations and the FATF Special Recommendations on Terrorist Financing and provides for measures to combat money laundering in Russia to be implemented by individuals and organisations, including Russian banking institutions, involved in transactions with money and certain property. Pursuant to the Anti-Money Laundering Law, Russian banks are obligated to inter alia: (1) establish and maintain systems of internal control ensuring that the bank and its clients are in compliance with Russian anti-money laundering legislation; (2) monitor and record certain client transactions, as specified in the Anti-Money Laundering Law; and (3) report certain client transactions specified by the Anti-Money Laundering Law to the relevant Russia authorities. Furthermore, in certain cases Russian banks must suspend client transactions and inform the relevant Russian authorities. The current Anti-Money Laundering Law does not permit banks to suspend or freeze client transactions for longer than two business days unless extended by the authorised body to a longer period.

The Federal Services on Financial Monitoring is the main governmental authority acting as a financial intelligence unit, and, together with the CBR, exercises control over banks' compliance with the AntiMoney Laundering Law. Russian banks are obligated to report through the CBR to the Federal Services on Financial Monitoring with respect to the types of transactions mentioned above.

Failure by Russian banks and/or their officers to comply with the requirements of the Anti-Money Laundering Law may result in the imposition of sanctions, including the revocation of a banking licence (with a subsequent liquidation of the bank) and criminal penalties for individuals.

Bankruptcy (Insolvency) and Other Related Issues

Bankruptcy of credit organisations in Russia is governed by Federal Law No. 127-FZ "*On Insolvency (Bankruptcy)*" of 26 October 2002 (the "**Bankruptcy Law**") and Federal Law No. 40-FZ "*On Insolvency (Bankruptcy) of Credit Organisations*" of 25 February 1999, as amended (the "**Bank Insolvency Law**").

Bankruptcy

Bankruptcy proceedings against a Russian bank may be initiated only after the revocation by the CBR of its banking licence. Following the revocation of the bank's licence, inter alia, all obligations of the bank are deemed to have fallen due and the bank is prohibited from entering into transactions and performing its obligations, except for a limited number of current and settlement transactions and operations listed in the Banking Law, until the liquidator or the competition manager is appointed.

Bankruptcy proceedings may be initiated against a Russian bank provided that its business has "signs" of insolvency, as described in the Bank Insolvency Law; the overall amount of the outstanding obligations is not less than 1,000 times the statutory minimum wage amount (currently RUR100,000 or approximately U.S.$3,556 as at 11 April 2011); the bank has failed to perform such obligations within 14 days of their due date; or after the revocation of the bank's licence its total assets do not cover all of its outstanding obligations.

Prior to the institution of bankruptcy proceedings, the CBR, on its own initiative or upon the application of the authorised body of the bank, has the right to take action aimed at preventing the bank's bankruptcy. Such action may include (a) financial rehabilitation of the bank (for example, financial support, changing the structure of assets and liabilities or organisational structure of the bank), (b) appointment of a temporary administration to the bank or (c) reorganisation.

Temporary Administration

The Bank Insolvency Law provides for a special pre bankruptcy procedure called "temporary administration", which is aimed at the financial rehabilitation of a bank. Technically, temporary administration precedes, and does not necessarily result in, the commencement of bankruptcy proceedings. Temporary administration may be imposed by the CBR in certain negative financial circumstances set out in Article 17 of the Bank Insolvency Law. The grounds for the appointment of a temporary administration include, among other things, breach of certain financial and regulatory capital ratios and a bank's failure to perform its payment obligations to some of its creditors for a period greater than seven days due to insufficient funds in its correspondent accounts.

The introduction of a temporary administration may entail a limitation or suspension of the powers of the executive bodies of a bank. The temporary administration can manage a bank and is further entitled to request that the CBR impose a three month moratorium on all payments of a bank to counterparties and creditors. The temporary administration may also refuse performance of agreements or challenge transactions under Articles 27 and 28 of the Bank Insolvency Law.

Priority of Claims

Under Russian bankruptcy law, claims of unsecured creditors against Russian banks are generally subordinated to the claims of individual clients arising out of deposit and bank account agreements, certain claims of creditors arising after the initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations, severance pay, employment related obligations and royalties. There is also a small risk that claims of unsecured creditors may be further subordinated to claims under certain tax and mandatory payment obligations to the Russian Government, although the Bankruptcy Law ranks such claims equally. Furthermore, unsecured claims are also effectively subordinated to claims secured by a Russian law pledge. Under the Bankruptcy Law, claims of creditors secured by a Russian law pledge are settled with the money received from the sale of pledged assets. Claims of creditors secured by a Russian law pledge remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors after the obligations mentioned above, irrespective of the time of the creation of such claims.

Recent amendments to the Bankruptcy Law provide that the proceeds from the sale of the pledged assets will be used as follows: (a) 70% (or 80% if the pledge secures a credit agreement) to satisfy secured claims; (b) 20% (or 15% if the pledge secures a credit agreement) to satisfy claims of creditors of the first and second priorities, provided the debtor's other property is insufficient to satisfy such claims; and (c) the remaining amount to cover court expenses, remuneration to a bankruptcy manager and related expenses. Any obligations of creditors secured by a pledge remaining unsatisfied following the sale of the pledged assets would be ranked as claims of unsecured creditors.

Liquidation and Revocation of the Banking Licence

Mandatory Liquidation

The procedure for the revocation of banking licences and liquidation of banks is regulated by the Banking Law. See "—*Regulation — Licensing*" above.

Upon the revocation of its licence, a bank must be liquidated either under mandatory solvent liquidation procedures set out in the Banking Law or under bankruptcy procedures set out in the Bank Insolvency Law.

Article 20 of the Banking Law establishes the consequences of the revocation of the banking licence, including that the CBR must impose a "temporary administration" on the relevant bank, that all obligations of the bank are deemed to have fallen due, that enforcement of execution documents issued on the basis of court judgments, with certain exceptions, is suspended and that entering into transactions and performance by the bank of its obligations is prohibited until the liquidator or the competition manager is appointed.

The CBR must make a public announcement of the revocation of the banking licence within one week of resolving to revoke such a licence.

Voluntary Liquidation

In the case of voluntary liquidation of a bank, the shareholders (founders), upon the adoption of the relevant decision, must apply to the CBR for cancellation of the banking licence and, upon its cancellation, the liquidation should be carried out in accordance with the liquidation rules and applicable CBR regulations. In particular, shareholders will appoint the liquidation commission to oversee the liquidation process.

Banking and Other Relevant Reforms

Following the 1998 financial crisis, Russian banks took important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks has gradually improved, as evidenced by the substantial growth in the volume of private deposits in Russian banks.

On 17 March 2011, the Russian Government and the CBR issued their joint Strategy. The Strategy replaced the five year Strategies for the Development of the Banking Sector in the Russian Federation issued in December 2001 and April 2005, and set out an action plan for the facilitation of the development of the Russian banking sector up to 2015.

Among other things, the Strategy outlined the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the current condition of the Russian banking sector. The Strategy also listed measures, which should be implemented to achieve these targets.

The system of the insurance of private deposits was introduced in 2003. According to the Deposit Insurance Law, banks holding a CBR licence for attracting deposits from individuals and opening and

administering individuals' accounts qualify for such activities. Subject to a bank's compliance with certain regulatory requirements, it enters the system of the insurance of individuals' deposits and thus qualifies to receive deposits and open accounts for individuals. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from receiving deposits and opening accounts for individuals. Banks accepting private deposits and opening accounts for individuals are required to make quarterly payments to the insurance fund in the amount of up to 0.15% of the average account balances calculated under the new law.

Under the Deposit Insurance Law, the protection for each individual is limited to RUR700,000 per bank and banks are required to make quarterly payments into a deposit insurance fund. The insurance payment from the deposit insurance fund will be payable to depositors if a bank's licence has been revoked or if the CBR has imposed a moratorium on payments by the bank. The basis of the deposit insurance contribution is the quarterly average of daily balances of retail deposits. Standard contribution premiums cannot exceed 0.15% of the contribution basis. In certain circumstances, the premium can be increased up to 0.3% of the contribution basis, but not for more than two quarters in every 18 months. When the size of the insurance fund reaches 5% of total retail deposits of all Russian banks, all succeeding contribution premiums cannot exceed 0.05% of the contribution basis, and when the size of the insurance fund exceeds 10% of all Russian banks' retail deposits, no contributions need to be made, but they resume once the insurance fund falls below the 10% threshold.

On 30 December 2004, the President signed Federal Law No. 218 FZ "*On Credit Histories*" (the "**Credit Histories Law**"). Most of the provisions of the Credit Histories Law came into force on 1 June 2005. Pursuant to the Credit Histories Law, the "credit history" of a borrower (whether an individual or a legal entity) consists of certain data, as defined by the Credit Histories Law, which describe the borrower's performance under loan or credit arrangements and which are stored with a "credit history bureau" (a Russian legal entity included in the State Register of Credit History Bureaus, whose principal activity is to collect, process and store credit history data and issue "reports", as defined in the Credit Histories Law). As of 17 January 2011, the FSFM had registered 32 credit history bureaus.

The Credit Histories Law defines the procedures for the submission of data to credit history bureaus, disclosure by bureaus of such data to authorised users, and the rights and obligations of borrowers and bureaus. It also sets out the procedures for the registration of credit history bureaus and the transfer of credit history data upon their liquidation.

Credit history bureaus may disclose credit history data only to:

- a borrower itself;
- banks or other legal entities which are users of such data (with the borrower's consent);
- courts and, with the consent of a prosecutor general, certain enforcement agencies; and
- the Central Credit History Catalogue administered by the CBR to allow the centralised search of all credit history data.

Credit organisations are obliged to make their activities compliant with the Credit Histories Law within nine months of the date of its entry into force. Since 1 September 2005, banks have been required to enter into agreements with at least one credit history bureau and provide it, subject to the borrowers' consent, with the relevant information relating to the borrowers.

In connection with the entry into force of the Credit Histories Law, amendments to the Banking Law, the Civil Code and to the Code of Administrative Offences were introduced in order to make them compliant with the Credit Histories Law. Specifically, these amendments address issues concerning

bank secrecy, liability for unauthorised access to, and disclosure of, credit history data, and violation of the procedure for the collection, storage and processing of such data.

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, Federal Law No. 152-FZ "*On Mortgage Backed Securities*" and amendments to the Civil Code, Tax Code and Federal Law No. 102-FZ "*On Mortgage*" were enacted in 2003/2004. By means of these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another intention of this new legislation is to introduce improved regulation of mortgage backed securities in order to make them more attractive for investors.

On 18 June 2004, the Currency Control Law came into force, replacing the former Federal Law "*On Currency Regulation and Currency Control*" of 1992 almost in its entirety. The Currency Control Law is generally aimed at the gradual liberalisation of Russian currency control regulations. Pursuant to the Currency Control Law, the CBR had the power to regulate certain currency operations (including non banking operations performed by Russian banks) by introducing a "special account requirement". As of 1 January 2007, the major remaining restrictions envisaged in the Currency Control Law (including the "special account requirement") have been abolished.

As part of implementing legislation contemplated by the Currency Control Law, the CBR passed Directive No. 1425-U of 28 April 2004, which came into force on 18 June 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorised banks and sets forth a list of non banking transactions between authorised banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non banking transactions of authorised banks will fall under the general currency control regime applicable to resident legal entities.

Measures to Support the Liquidity and Solvency of Russian Banks and Legal Entities since October 2008

Since October 2008, the Russian Government and the CBR have announced and, in many cases, fully implemented measures intended to support the liquidity and solvency of Russian banks and to increase the availability of credit to businesses, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures were primarily introduced by Federal Law No. 173-FZ "*On the Additional Measures to Support the Financial System of the Russian Federation*" dated 13 October 2008, as amended (the "**Rescue Measures Law**"). According to the Rescue Measures Law, the following measures are being implemented:

- The Russian Government through the CBR and Vnesheconombank may provide up to RUR910 billion in subordinated loans to state-owned and private banks under certain conditions. The RUR910 billion state contribution to banking sector capital in the form of long-term subordinated loans is one of the key economic initiatives announced by the Russian Government to restore confidence in the Russian banking sector. State-owned banks such as Sberbank, VTB and Russian Agricultural Bank received RUR500 billion, RUR200 billion and RUR25 billion, accordingly, as part of this initiative. The remaining amount has been distributed among privately-owned Russian banks subject to certain conditions.

- The CBR is authorised to enter into agreements with privately owned banks to partially compensate such banks for the losses suffered during the period from 14 October 2008 to 31 December 2010 as the result of operations on the interbank market with banks whose licences are revoked. Vnesheconombank had the right, until 31 December 2009, to originate foreign currency loans up to

U.S.$50 billion to Russian legal entities to repay and/or refinance the loans received from foreign lenders prior to 25 September 2008.

- The CBR established a new liquidity scheme to conduct uncollateralised lending covering a number of Russian banks. The maximum amounts that banks can raise under this facility were set by the CBR depending on the credit rating, asset size and the level of capitalisation of the potential borrower under this arrangement.

- The CBR Regulation dated October 16, 2008 No. 323-P "*On Provision of Unsecured Loans to Russian Credit Institutions by the Bank of Russia*" has introduced the procedure and criteria for issuing unsecured loans by the Central Bank of Russia.

- Federal Law No. 317-FZ "*On Amending Articles 46 and 76 of the Federal Law on Central Bank of Russian Federation (Bank of Russia)*" dated 30 December 2008 vested the CBR with the right to appoint its authorised representatives to the banks and credit institutions which, *inter alia*, have received any foreign currency loans and/or subordinated loans under the Rescue Measures Law. The CBR Regulation No. 2182-U dated 9 February 2009 provides for the procedure for such authorised representatives appointment, their rights and obligations including, inter alia, the right to participate in the meetings of the management bodies of such banks and credit institutions and the right to request information on management remuneration and the issuance of loans to third parties.

- CBR Regulation No. 2092-U "*On Determination of Mandatory Reserve Requirements of the Bank of Russia*" dated 14 October 2008 temporarily decreased the reserve requirements for all types of financial obligations, namely funds in Roubles and foreign currencies payable to non-resident banks, funds in Roubles payable to individuals and other obligations, to 0.5% from 4.5%, 1.5% and 2%, respectively. However, the CBR Regulation No. 2582-U dated 25 February 2011 "*On Determination of Mandatory Reserve Requirements of the Bank of Russia*" increased these reserve requirements from 1 March 2011 to 4.5%, 3.5% and 3.5%, respectively. Furthermore, pursuant to the CBR Regulation No. 2601-U dated 25 March 2011 "*On Determination of Mandatory Reserve Requirements of the Bank of Russia*", from 1 April 2011 reserve requirements for the banks' obligations to individuals and other obligations in Roubles or foreign currency have been increased to 4.0% and reserve requirements for the banks' obligations to non-resident legal entities in Roubles or foreign currency have been increased to 5.5%.

- The Retail Deposit Insurance Law has been amended to increase the amount of the secured deposits of individuals with Russian banks included to the state system of deposits insurance up to RUR 700,000.

- Government Decree No. 18 "*On the Procedure of National Welfare Fund Assets Management*" has been amended in 2008 and 2009 to increase the scope of financial instruments in which funds from the National Welfare Fund can be invested. The National Welfare Fund was established in 2008 using oil revenues, with a view to partially funding contributions to pensions of Russian citizens and to make up shortfalls in other contributions from the federal budget to federal pension funds. As a consequence, up to RUR655 billion of such funds may be deposited in Vnesheconombank to support the Russian financial markets.

- The number of instruments eligible for the CBR's collateralised facility and for refinancing transactions with the CBR has been increased and the CBR may accept, among other things, the pledge of certain bonds and suretyships granted by certain Russian banks as collateral under its facilities to credit organisations.

Terms and Conditions of the Notes

The following are the Terms and Conditions of the Notes, which will be endorsed on each Definitive Note and attached to or incorporated by reference into the Global Notes. The Terms and Conditions of the Notes applicable to the Global Notes will differ from those, which would apply to a Definitive Note to the extent described under "Summary of Provisions Relating to the Notes in Global Form".

The U.S.$1,000,000,000 7.75 per cent. Loan Participation Notes due 2021 (the "**Notes**" which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) of Alfa Bond Issuance Plc (the "**Issuer**", which expression shall include any entity substituted for the Issuer pursuant to Condition 10(C)) are constituted by, are subject to, and have the benefit of, a trust deed (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 28 April 2011 and made between the Issuer and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.$1,000,000,000 10-year loan (the "**Loan**") to OPEN JOINT-STOCK COMPANY "ALFA-BANK" (the "**Borrower**"). The terms of the Loan are recorded in a loan agreement (the "**Loan Agreement**") dated 21 April 2011 between the Issuer (as lender) and the Borrower. ABH Financial Limited and any successor thereto in accordance with the terms of the Loan Agreement ("**ABH Financial**") has agreed to irrevocably and unconditionally guarantee the due and punctual payment by the Borrower of all amounts payable by the Borrower (including principal and interest) under the Loan in full as well as the due and punctual performance of the obligations of the Borrower under the Loan pursuant to a deed of guarantee (the "**ABH Financial Deed of Guarantee**") entered into between the Issuer and ABH Financial.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely on the covenant to pay under the Loan Agreement and the ABH Financial Deed of Guarantee, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Borrower and ABH Financial. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders certain of its rights and interests under the Loan Agreement and the ABH Financial Deed of Guarantee as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement and the ABH Financial Deed of Guarantee to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**") in each case excluding the Reserved Rights. "**Reserved Rights**" are the rights excluded from the Charge and the Assigned Rights, being (a) all and any rights, interests and benefits in respect of the obligations of the Borrower under Clauses 2.2, 3.2, 5.3 (other than the right to receive any amount payable under such Clause), 7.1 (to the extent that the Borrower shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of taxes, penalties or interest), 7.2 (to

the extent that the Issuer has received amounts to which the Noteholders are not entitled), 7.3, 7.4, 9, 12.4, 12.5 to 12.7 (only to the extent that the Borrower shall reimburse the Issuer for any amount paid by the Issuer), 13, 15.1 and 15.2 of the Loan Agreement and (b) all and any rights, interests and benefits in respect of the obligations of ABH Financial under Clause 5 of the ABH Financial Deed of Guarantee.

In certain circumstances, the Trustee can (subject to its being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to an agency agreement (the "**Agency Agreement**") dated 21 April 2011 and made between the Borrower, the Issuer, The Bank of New York Mellon, London Branch, as the principal paying agent (the "**Principal Paying Agent**", which expression shall include any successors), The Bank of New York Mellon, New York Branch, as the U.S. paying agent and a transfer agent (the "**U.S. Paying Agent**" and a "**Transfer Agent**", which expressions shall include any successors, and the U.S. Paying Agent and the Principal Paying Agent, together, the "**Paying Agents**") and The Bank of New York Mellon (Luxembourg) S.A. as the registrar (the "**Registrar**", which expression shall include any successors), and the transfer agents and paying agents named therein (the "**Transfer Agents**" and "**Paying Agents**" respectively, which expressions shall include any successors, and together with the Principal Paying Agent and the Registrar, the "**Agents**") and the Trustee.

Copies of the Trust Deed, the Loan Agreement, the ABH Financial Deed of Guarantee and the Agency Agreement are available for inspection by Noteholders during normal business hours at (i) the principal office of the Trustee being, at the date hereof, One Canada Square, London E14 5AL, United Kingdom; and (ii) the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed), the ABH Financial Deed of Guarantee and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof and are deemed to have notice of all of the provisions of the Loan Agreement that are applicable to them.

Capitalised expressions used but not defined herein shall have the meaning given to them in the Trust Deed.

1 STATUS

The Notes are limited recourse secured obligations of the Issuer.

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, less any amount in respect of the Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case

may be, less any amount in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the Business Day after, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders have notice of, and have accepted, these Conditions and the provisions of the Trust Deed, the Agency Agreement, the Loan Agreement and the ABH Financial Deed of Guarantee. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

(a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed, in the Loan Agreement (in the case of the Issuer) or in Condition 1(f) below, liability or obligation in respect of, the performance and observance by the Borrower and ABH Financial of their respective obligations under the Loan Agreement and the ABH Financial Deed of Guarantee or the recoverability of any sum of principal, interest or additional amounts, if any, due or to become due from the Borrower and/or ABH Financial under the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be;

(b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower or ABH Financial;

(c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement or of ABH Financial under or in respect of the ABH Financial Deed of Guarantee;

(d) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations under the Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depend upon performance by the Borrower of its obligations under the Loan Agreement or, as the case may be, by ABH Financial of its obligations under the ABH Financial Deed of Guarantee, their respective covenants to make payments under the Loan Agreement and the ABH Financial Deed of Guarantee and their credit and financial standing;

(f) the Issuer and the Trustee shall be entitled to rely on certificates of the Borrower and ABH Financial (and where applicable, certification by third parties), whether or not addressed to, or obtained by, the Issuer or the Trustee, as a means of monitoring whether the Borrower and ABH Financial are complying with their respective obligations under the Loan Agreement and the ABH Financial Deed of Guarantee, and shall not otherwise be responsible for investigating any aspect of the Borrower's or ABH Financial's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Issuer under the ABH Financial Deed of Guarantee or as Lender under the Loan Agreement nor the Trustee will be liable for any failure to

make the usual, or any, investigations which might be made by an Issuer or a security holder (as applicable) in relation to the property which is subject to the Security Interests and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security;

(g) neither the Trustee nor the Issuer shall at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until the Issuer or the Trustee, as the case may be, has received from the Borrower and/or ABH Financial, as the case may be, the funds or adequate indemnity against, and/or security and/or prefunding that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds; and

(h) the Issuer will not be liable for any shortfall in respect of amounts payable by or resulting from any withholding or deduction or for any payment on account of tax required to be made by the Issuer on or in relation to any sum received by it under the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, which will or may affect payments made or to be made by the Borrower under the Loan Agreement or ABH Financial under the ABH Financial Deed of Guarantee, save to the extent that it has received additional amounts under the Loan Agreement or the ABH Financial Deed of Guarantee, as the case may be, in respect of such withholding or deduction or payment, and the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the Loan Agreement. The Trustee shall have no liability for any such shortfall in respect of any such deduction, withholding or payment.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower and/or under the ABH Financial Deed of Guarantee by ABH Financial, as the case may be, to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes (unless, upon due presentation of a Note, payment is improperly withheld or refused).

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan, the Loan Agreement or the ABH Financial Deed of Guarantee exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or the ABH Financial Deed of Guarantee or direct recourse to the Borrower or ABH Financial, except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take any action or proceedings to

enforce payment under the Loan Agreement and/or the ABH Financial Deed of Guarantee unless it has been indemnified and/or secured and/or pre-funded to its satisfaction.

Notwithstanding any other provision hereof, the obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received by or for the account of the Issuer (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be) from the Borrower or ABH Financial, as the case may be, in respect of principal, interest or, as the case may be, other amounts relating to the Loan Agreement and/or the ABH Financial Deed of Guarantee (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered by or on behalf of the Issuer or the Trustee (following a Relevant Event or (if applicable) an Event of Default). Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. To the extent that such sums and the proceeds of the enforcement of the security relating to the Notes are less than the amounts that would otherwise be due to Noteholders if the full amount due under the Loan Agreement and/or the ABH Financial Deed of Guarantee as the case may be, had been received and retained net of tax (the difference being the referred to as a "**shortfall**"), such shortfall shall be extinguished and Noteholders may take no further action to recover such amounts.

None of the Noteholders or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, other than in the case of fraud.

2 FORM AND DENOMINATION

The Notes are issued in registered form without coupons attached in the denomination of U.S.$200,000 or higher integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Holding**").

3 REGISTER, TITLE AND TRANSFERS

(A) REGISTER

The Registrar will maintain a register (the "**Register**") in respect of the Notes outside the United Kingdom in accordance with the provisions of the Agency

Agreement on which shall be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and of all transfers and redemptions of Notes. In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register. Each Noteholder shall be entitled to receive only one Certificate in respect of its entire holding.

(B) TITLE

Title to the Notes will pass by transfer and registration in the Register. The holder of each Note shall (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.

(C) TRANSFERS

Subject to the terms of the Agency Agreement and to Conditions 3(F) and 3(G) below, a Note may be transferred in whole or in part upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Certificate may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

No transfer of a Certificate will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number) or a nominee.

(D) REGISTRATION AND DELIVERY OF CERTIFICATES

Within five business days of the surrender of a Certificate in accordance with Condition 3(C) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this Condition 3(D), "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its Specified Office.

(E) NO CHARGE

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but subject to the person making such application for transfer paying or procuring the payment of (or the giving of such indemnity as the Issuer, the Registrar or the relevant Transfer Agent, as the case may be, may require in respect of) any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) CLOSED PERIODS

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) REGULATIONS CONCERNING TRANSFERS AND REGISTRATION

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations and is available at the Specified Offices of the Transfer Agents.

4 RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution, agree to any amendments to or any modification, rescission, cancellation, termination or waiver of, or authorise any breach by any counterparty of or proposed breach by any counterparty of, the terms of the Loan Agreement or the ABH Financial Deed of Guarantee, and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement or the ABH Financial Deed of Guarantee, as the case may be, except as otherwise expressly provided in the Trust Deed, the Loan Agreement or the ABH Financial Deed of Guarantee, as the case may be. Any such amendment, modification, waiver, rescission, cancellation, termination or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys other than issues of notes on a limited recourse basis for the sole purpose of making loans to the Borrower, engage in any business (other than entering into any agreements related to the Notes or any other issue of notes as aforesaid and performing any acts incidental to or necessary in connection with the Notes or such related agreements (including the holding of any security in connection therewith), making the Loan to the Borrower pursuant to the Loan Agreement or any future loans to the Borrower and performing any act incidental to or necessary in connection therewith), declare any dividends, have any subsidiaries or employees (save for its directors), purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity (to the extent the same is within the control of the Issuer) to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any

further shares (to the extent the same is within the control of the Issuer) or make any distribution to its shareholders, give any guarantee or assume any other liability or, except where required under the laws of Ireland, petition for any winding-up or bankruptcy.

5 INTEREST

On each Interest Payment Date, or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, which interest under the Loan is equal to 7.75 per cent. per annum (as set out in Clause 4 of the Loan Agreement). Each period from (and including) 28 April 2011 (the "**Issue Date**") or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall accrue (as well after as before judgment) at the rate of interest as set out in Clause 4 of the Loan Agreement, provided that the Issuer shall account to the relevant Noteholder for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be.

In this Condition 5, "**Interest Payment Date**" means 28 April and 28 October of each year commencing on 28 October 2011.

6 REDEMPTION

A. SCHEDULED REDEMPTION

Unless previously prepaid or repaid, the Borrower will be required to repay the Loan one Business Day (as defined in the Loan Agreement) prior to 28 April 2021 (the "**Repayment Date**") and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will on 28 April 2021, or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof, together with accrued interest.

B. EARLY REDEMPTION

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement in advance of the Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with accrued interest and (subject to the Loan being repaid together with accrued interest) shall be redeemed or repaid and the Issuer will endeavour to give not less than 14 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

Under the Loan Agreement:

(i) the Borrower may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 of the Loan Agreement; and

(ii) the Issuer may require the Borrower to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.3 of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or additional amounts (other than amounts in respect of the Reserved Rights) from the Borrower and/or ABH Financial under the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, following prepayment of the Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7) following receipt of such amounts, subject as provided in Condition 7.

C. CANCELLATION

The Loan Agreement provides that the Borrower, ABH Financial or any Subsidiary of the Borrower or ABH Financial may, among other things, from time to time purchase Notes in the open market or by tender or by a private placement at any price and deliver to the Issuer such Notes, having an aggregate principal value of at least U.S.$1,000,000 together with a request for the Issuer to present such Notes to the Registrar for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation, together with accrued interest (if any) thereon, and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

The Issuer may compel any beneficial owner of Notes initially sold pursuant to Rule 144A under the U.S. Securities Act of 1933 (the "**Securities Act**") to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

D. CHANGE OF CONTROL

If a Change of Control Put Event (as defined in the Loan Agreement) shall have occurred, the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at its principal amount together with accrued interest (if any) to the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware (either by receiving written notice from the Borrower or otherwise) that a Change of Control Put Event has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 14 and the Trustee, specifying the details relating to the occurrence of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 30 days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the specified office of the Principal Paying Agent or any Paying Agent, evidence satisfactory to the Principal Paying Agent or Paying Agent of such holder's entitlement to such Note and a duly completed put option notice (a "**Change of Control Put Redemption Notice**")

specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Change of Control Put Period, the relevant Paying Agent shall notify in writing the Issuer and the Borrower of the exercise of the Change of Control Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option. Provided that the Notes that are the subject of any such Change of Control Put Redemption Notice have been delivered to the Principal Paying Agent or Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Borrower; and (ii) as provided in Condition 8) redeem all such Notes on the date falling five Business Days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Redemption Notice, once delivered in accordance with this Condition 6(D), may be withdrawn.

"**Change of Control Put Event**" has the meaning given to it in the Loan Agreement).

7 PAYMENTS

A. PRINCIPAL

Payments of principal shall be made by U.S. Dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or the specified office of the Transfer Agent.

B. INTEREST

Payments of interest shall be made by U.S. Dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment (the "**Record Date**"), by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City, and (in the case of interest payable on redemption) upon surrender (or, in the case either of an interest payment prior to redemption or of part payment only, endorsement) of the relevant Notes at the specified office of any Paying Agent.

C. PAYMENTS SUBJECT TO FISCAL LAWS

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

D. PAYMENTS ON BUSINESS DAYS

If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following

business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7, "**business day**" means a day on which (a) U.S. dollar deposits may be dealt in on the London inter-bank market and commercial banks and foreign exchange markets are open in London, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, New York City and in the city where the Specified Office of the Principal Paying Agent is located.

E. RECORD DATE

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the relevant Record Date. Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

F. ACCRUED INTEREST

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

G. PAYMENTS BY BORROWER

Save as directed by the Trustee at any time after the Security Interests become enforceable, the Issuer will require the Borrower, or, failing which, ABH Financial, as the case may be, to make all payments of principal, interest and additional amounts, if any, to be made pursuant to the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, to an account in the name of the Issuer with the Principal Paying Agent. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money (with the exception of sums relating to the Reserved Rights) then or in the future deposited in such account in favour of the Trustee for the benefit of the Trustee and the Noteholders.

H. SUCCESSOR PAYING AGENTS

The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, appoint a successor Registrar or Principal Paying Agent and/or additional or successor Paying Agents or Transfer Agents provided that the Issuer maintains (i) a Principal Paying Agent; (ii) for so long as the Notes are listed and/or admitted to trading on any stock exchange, a Paying Agent as may be required by the rules and regulations of such stock exchange; (iii) a Registrar having a Specified Office outside the United Kingdom; and (iv) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other directive regarding the taxation of savings (the "**European Union Directive**") or any law implementing or complying with, or introduced in order to conform to, the European Union Directive. Any such variation, termination or appointment of successor or other Agents shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and

not less than 30 days' notice thereof shall have been given to the continuing Agents, the Borrower, the Trustee and to the Noteholders in accordance with Condition 14.

I. FRACTIONS

Each payment by the Issuer to a Noteholder will be rounded down to the nearest cent.

8 TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In the event any such taxes are required to be deducted or withheld, the Issuer shall, subject as provided below, make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Borrower under the Loan Agreement or from ABH Financial under the ABH Financial Deed of Guarantee, as the case may be. To the extent that the Issuer does not receive any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer; provided that no such additional amount will be payable in respect of any Note:

(a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with Ireland other than the mere holding of such Notes or the receipt of payments in respect thereof;

(b) in respect of a Certificate presented for payment of principal or interest on redemption more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on such 30th day;

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive or any law or regulation implementing or complying with, or introduced in order to conform to, the European Union Directive; or

(d) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

As used herein, "Relevant Date" means (i) the date on which the equivalent payment under the Loan Agreement and/or the ABH Financial Deed of Guarantee, as the case may be, first becomes

due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement and/or if the full amount payable by ABH Financial has not been received by, or for the account of, the Issuer pursuant to the ABH Financial Deed of Guarantee, as the case may be, on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed. If the Issuer becomes subject to any taxing jurisdiction other than or in addition to Ireland, references in these Conditions to Ireland shall be construed as references to Ireland and/or such other jurisdiction.

9 ENFORCEMENT

The Trust Deed provides that only the Trustee (subject to Condition 1) may pursue remedies under general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

The Trust Deed also provides that, at any time after an Event of Default (as defined in the Loan Agreement), or a Relevant Event (as defined in the Trust Deed) has occurred, the Trustee may, at its discretion, and shall, if requested to do so by Noteholders whose Notes constitute at least one quarter in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution or Written Resolution and, in either case, subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, institute such steps, actions or proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed, including to (i) declare all amounts payable under the Loan Agreement by the Borrower or under the ABH Financial Deed of Guarantee by ABH Financial to be immediately due and payable (in the case of an Event of Default); and/or (ii) exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be, subject to the provisions of the Trust Deed and these Conditions, redeemed or repaid at their principal amount, together with accrued interest thereon and thereupon shall cease to be outstanding.

10 MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE ISSUER

A. MEETINGS OF NOTEHOLDERS

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement, the ABH Financial Deed of Guarantee or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Such a meeting may be convened by the Issuer, the Borrower or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured and/or prefunded to its satisfaction, upon the request in writing of the holders of the Notes holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The Trust Deed provides that special

quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes, the amounts payable and currency of payment under the Loan Agreement and any changes to provisions of the ABH Financial Deed of Guarantee. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trust Deed provides that a Written Resolution (as defined in the Trust Deed) passed by holders of in aggregate not less than 90 per cent. of the aggregate principal amount outstanding of the Notes shall have effect as an Extraordinary Resolution.

B. MODIFICATION AND WAIVER

The Trustee may agree, without the consent of the Noteholders (save as provided in the Trust Deed), to any modification of the Notes and the Trust Deed, the Agency Agreement, the Loan Agreement or the ABH Financial Deed of Guarantee which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (in the opinion of the Trustee) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, or the Trust Deed or by the Borrower of the terms of the Loan Agreement or by ABH Financial of the terms of the ABH Financial Deed of Guarantee or determine that any event which would or might otherwise give rise to (i) a right of acceleration under the Loan Agreement or (ii) a Relevant Event shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders; provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or Written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

C. SUBSTITUTION

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the prior written consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein, including the substitute obligor's rights under the Loan Agreement and the ABH Financial Deed of Guarantee being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes, substitute any entity in place of the Issuer as creditor under the Loan Agreement and the ABH Financial Guarantee, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

D. EXERCISE OF POWERS

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not be obliged to have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower, ABH Financial or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11 PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12 TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any steps or actions including proceedings to enforce payment unless indemnified and/or secured and/or pre-funded to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Borrower and/or ABH Financial and any entity relating to the Issuer, the Borrower and/or ABH Financial without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement, the ABH Financial Deed of Guarantee or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed, by the Borrower in respect of the Loan Agreement or by ABH Financial in respect of the ABH Financial Deed of Guarantee. The Trustee is entitled to assume that the Borrower is performing all of its obligations pursuant to the Loan Agreement and that ABH Financial is performing all of its obligations pursuant to the ABH Financial Deed of Guarantee (and shall not incur liability for doing so).

The Trustee shall have no liability to Noteholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests being enforced by it.

The Trust Deed contains provisions for the appointment of new trustees by the Issuer (subject to approval by an Extraordinary Resolution of Noteholders) and for the removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that in the case of the removal of a Trustee, at all times there remains a trustee (being a trust corporation (as defined in the Trust Deed)) in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such retirement shall not become effective unless there remains a Trustee in office after such retirement.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14.

13 REPLACEMENT OF CERTIFICATES

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of any stock exchange on which the Notes are from time to time listed or quoted, be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office at One Canada Square, London E14 5AL, United Kingdom (or any other place of which notice shall have been given to the Noteholders in accordance with Condition 14), on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such notice.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading shall constitute sufficient notice to such holders for every purpose hereunder.

15 FURTHER ISSUES

The Issuer may from time to time, with the consent of the Borrower and ABH Financial but without the consent of the Noteholders, create and issue further notes or bonds having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) so as to be consolidated and form a single series with the Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will (i) enter into a loan agreement with the Borrower on the same terms (other than with respect to the amount of the loan (if different from the amount of the Loan) and the date thereof) as the Loan Agreement and supplemental to the Loan Agreement, or may amend and restate the same with the Borrower on substantially the same terms as the Loan Agreement and (ii) enter into a guarantee agreement with ABH Financial on the same terms as the ABH Financial Deed of Guarantee, or may amend and restate the same with ABH Financial on substantially the same terms as the ABH Financial Deed of Guarantee. The Issuer will provide a fixed charge in favour of the Trustee in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement, which will secure both the Notes and such further Notes and

which will supplement the Security Interests in relation to the existing Notes or may amend and supplement the Security Interests for such purpose. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the prior written consent of the Trustee), be constituted by a deed supplemental to the Trust Deed containing such provisions as the Trustee may require. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides. Application will be made for such further notes or bonds to be listed and admitted to trading on the stock exchange on which the Notes are from time to time listed or quoted.

16 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 GOVERNING LAW AND JURISDICTION

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.

The Loan Agreement

The following is the text of the Loan Agreement, which has been entered into between Alfa Bank and the Issuer

This Agreement is made on 21 April 2011 **between**:

(1) **OPEN JOINT-STOCK COMPANY** "**ALFA-BANK**", a company incorporated under the laws of Russia whose registered office is at 27 Kalanchevskaya Street, 107078 Moscow, Russian Federation (the "**Borrower**"); and

(2) **ALFA BOND ISSUANCE PLC**, a company incorporated under the laws of Ireland, whose registered office is at 53 Merrion Square, Dublin 2, Ireland (the "**Lender**" or "**Issuer**" of the Notes).

Whereas:

(A) The Lender has at the request of the Borrower made available to the Borrower a loan facility in the amount of U.S.$1,000,000,000 on the terms and subject to the conditions of this Agreement.

(B) It is intended that, concurrently with the extension of the Loan under this Agreement, the Lender will issue certain loan participation notes.

Now it is hereby agreed as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

"**ABH Financial**" means (i) ABH Financial Limited or (ii) ABH Financial Limited's Successor pursuant to an ABH Financial Limited Permitted Reorganisation.

"**ABH Financial Deed of Guarantee**" means either (i) the deed of guarantee dated 21 April 2011 between ABH Financial Limited and the Lender in respect of the unconditional and irrevocable guarantee to the Lender by ABH Financial Limited of the performance of all payment and other obligations of the Borrower under this Agreement (the "**Existing ABH Financial Deed of Guarantee**") or (ii) following an ABH Financial Limited Permitted Reorganisation, a deed of guarantee to be entered into by ABH Financial Limited's Successor pursuant to an ABH Financial Limited Permitted Reorganisation.

"**ABH Financial Limited Permitted Reorganisation**" has the meaning set out in Clause 10.8 (*Limitation on merger and consolidation*).

"**ABH Financial Limited's Successor**" has the meaning set out in Clause 10.8 (*Limitation on merger and consolidation*).

"**Account**" means the account in the name of the Lender with the Principal Paying Agent, account number 6365788400 (or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least five Business Days in advance of such change).

"**Acquired Indebtedness**" means in relation only to any Subsidiary which became or becomes a Subsidiary through the exercise of a Security Interest (as defined in the Trust Deed) in favour of the Borrower or ABH Financial, any Indebtedness of such Subsidiary which was pre-existing at the time such Subsidiary became a Subsidiary.

"**Additional Amounts**" has the meaning set forth in Clause 7.1 (*Additional Amounts*).

"**Advance**" has the meaning set out in Clause 3.1 (*Drawdown*).

"**Affiliate**" of any specified Person means (a) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person (which shall include the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise), (b) any other Person who is a director or officer (i) of such specified Person, (ii) of any subsidiary of such specified Person or (iii), or of any Person described in (a) above.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state.

"**Agency Agreement**" means the agency agreement relating to the Notes dated on or around the date hereof between the Lender, the Trustee, the Principal Paying Agent and the other agents named therein, from time to time modified.

"**Agreement**" means this loan agreement as originally executed or as it may be amended from time to time.

"**Banking Business**" means in relation to ABH Financial, the Borrower or any Subsidiary of any member of the Group, any type of banking business (including, without limitation, any factoring, consumer credit, mortgage-lending, issuance of banking guarantees and letters of credit (and related cash cover provision), Repos, total return swaps, prime brokerage agreements, credit derivatives, hedging, bills of exchange and promissory notes, trading of securities, fund management and professional securities market participation business) which they conduct or may conduct pursuant to their licences issued by the appropriate authorities, accepted market practice and any applicable law.

"**Board of Directors**" means, as to any Person, the board of directors or equivalent competent governing body of such Person, or any duly authorised committee thereof.

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York, London, Ireland and Moscow.

"**Central Bank**" or "**CBR**" means the Central Bank of the Russian Federation or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR.

A "**Change of Control**" shall be deemed to have occurred at each time (whether or not approved by the Board of Directors of ABH Financial) that any Person or any Persons acting in concert, or any Persons acting on behalf of any such Person(s), at any time is/are or become(s) interested in or acquires an interest in (a) more than 50% of the issued or allotted ordinary share capital of ABH Financial or (b) shares in the capital of ABH Financial carrying more than 50% of the voting rights normally exercisable at a general meeting of the shareholders of ABH Financial. An ABH Financial Limited Permitted Reorganisation shall not constitute a Change of Control.

"**Change of Control Put Event**" means the occurrence of both (a) a Change of Control and (b) a Negative Ratings Event resulting from that Change of Control.

"**Change of Control Put Option**" means the put option granted to Noteholders pursuant to the Conditions.

"**Change of Control Put Period**" has the meaning given to it in the Conditions.

"**Change of Control Put Settlement Date**" means the fifth Business Day after the expiration of the Change of Control Put Period.

"**Closing Date**" means, subject to Clause 9.2 (*Postponed Closing)* of the Subscription Agreement, 28 April 2011.

"**Conditions**" means the terms and conditions of the Notes.

"**Contemplated Disposal**" means the sale, lease, transfer, dividend or other disposition:

(i) of the shares of and/or other ownership interests in Amsterdam Trade Bank by sale or dividend to the shareholders of ABH Financial, provided that any such sale or dividend would not have a Material Adverse Effect;

(ii) of the shares of and/or other ownership interests in and/or assets comprising the Pamplona Credit Opportunities Fund to the shareholders of ABH Financial, provided that any such sale or dividend would not have a Material Adverse Effect;

(iii) of any asset by ABH Financial to any Subsidiary of ABH Financial or by any Subsidiary of ABH Financial to ABH Financial or any other Subsidiary of ABH Financial; and

(iv) in connection with the completion of the merger of OJSC Severnaya Kazna and the Group.

"**Default**" means any event which is, or after notice or passage of time or after making any determination under this Agreement or the fulfilment of any other requirement (or any combination of the foregoing) would be, an Event of Default.

"**Dispute**" has the meaning assigned to it in Clause 18.2 (*Jurisdiction*).

"**Dollars**", "**U.S. Dollars**" and "**U.S.$**" mean the lawful currency of the United States of America.

"**Domestic Debt**" means (a) loans solely from banks and/or financial institutions domiciled in, or incorporated under, any of the laws of any state forming part of the Commonwealth of Independent States or any territory thereof which are not subsidiaries of Persons domiciled in or incorporated under the laws of any territory outside any such state, and (b) deposits from Persons in any state forming part of the Commonwealth of Independent States or any territory thereof.

"**Event of Default**" has the meaning given to it in Clause 11.1 (*Events of Default*).

"**Excluded Event**" means any event which results, or would result upon the taking of necessary actions pursuant to the relevant documents, in the early amortisation, early repayment in full or in part or optional prepayment in full or in part of any Indebtedness pursuant to the terms thereof where that Indebtedness is comprised only of obligations of any member of the Group under a Securitisation Transaction (ignoring for these purposes the threshold amount of 30% of the consolidated total assets of the Group contained in the definition of that term), including, for the avoidance of doubt, any Indebtedness incurred by a member of the Group under loans entered into in connection with the Diversified Payment Rights Securitisation Programme of Alfa Diversified Payment Rights Finance Company S.A.

"**Extraordinary Resolution**" has the meaning given in the Trust Deed.

"**Facility**" means the term loan facility granted by the Lender to the Borrower as specified in Clause 2 (*Facility*).

"**Finance Documents**" means this Agreement and the other agreements and deeds relating to the issuance of the Notes, including any subscription agreement related to such Notes to which the Lender is a party.

"**Global Notes**" means the Rule 144A Global Note or, as the context may require, the Regulation S Global Note and "**Global Notes**" shall be construed accordingly.

"**Group**" means ABH Financial and its Subsidiaries taken as a whole.

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for.

"**Indebtedness**" means any present or future indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised; any present or future amount raised by acceptance under any acceptance credit facility; any present or future amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any present or future amount of money raised pursuant to any issue of shares which are expressed to be redeemable; any present or future amount raised under any other transaction having the commercial effect of a borrowing; and the amount of any present or future liability in respect of any guarantee or indemnity for any of the items referred to above provided that, for the avoidance of doubt, obligations of any member of the Group under (i) a True Sale Securitisation Transaction; or (ii) a Synthetic Securitisation shall not constitute and shall not be included in determining the amount of any Indebtedness of that Person.

"**Independent Appraiser**" means an investment banking, accountancy or appraisal firm of international standing appointed at its expense by the Borrower (with the prior written consent of the Trustee), provided it is not an Affiliate of the Lender, ABH Financial or any Material Subsidiary.

"**Interest Payment Date**" means 28 April and 28 October of each year in which the Loan remains outstanding, commencing on 28 October 2011 and ending on the Repayment Date.

"**Interest Period**" has the meaning given to it in the Conditions.

"**Issue Date**" has the meaning given to it in the Conditions.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, easement, restriction, covenant, right of way, servitude, lien or charge securing any obligation of any Person or adverse claim or any preferential arrangement of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof, including a Sale/Leaseback Transaction) having a similar effect to the foregoing.

"**Loan**" means, at any time, an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time.

"**Lowest Rating**" means, in respect of any senior, unsecured issuer rating of the Issuer, the Borrower or ABH Financial, the lowest rating assigned by a Rating Agency (or, where more than one Rating Agency has assigned an equivalent rating to such senior, unsecured issuer rating of the Issuer, the Borrower or ABH Financial, the relevant Rating Agencies) and existing on the Business Day immediately preceding the commencement of the Relevant Period, as compared with the senior, unsecured issuer rating assigned by any other Rating Agency and existing on such date.

"**Material Adverse Effect**" means a material adverse effect on the business, operations, assets (not including real property), condition (financial or otherwise) of ABH Financial and its Subsidiaries

taken as a whole or on either of the Borrower or ABH Financial's ability to perform or comply with its obligations under this Agreement and/or the ABH Financial Deed of Guarantee or on the validity or enforceability of this Agreement, the ABH Financial Deed of Guarantee or any document related to them or on the rights and remedies of any person thereunder.

"**Material Subsidiary**" means, at any particular time, a Subsidiary of ABH Financial (a) whose assets exceed 10% of the consolidated IFRS total assets of ABH Financial or (b) whose net profits before taxation exceed 10% of the consolidated IFRS net profit before taxation of ABH Financial, for which purpose:

(i) all calculations shall be determined by reference to (a) the then latest annual consolidated audited accounts of the relevant Subsidiary (in the case of a Subsidiary which prepares consolidated accounts) or the then latest annual non consolidated audited accounts of the relevant Subsidiary (in the case of a Subsidiary which only prepares non consolidated accounts) or if the relevant Subsidiary does not prepare audited accounts, the then latest annual consolidated unaudited accounts of the relevant Subsidiary (in the case of a Subsidiary which prepares consolidated accounts) or the latest annual non consolidated unaudited accounts of the relevant Subsidiary (in the case of a Subsidiary which only prepares non consolidated accounts) and (b) the then latest audited consolidated IFRS financial statements of ABH Financial;

(ii) upon a Material Subsidiary transferring all or substantially all of its assets or business to another Subsidiary of ABH Financial the transferor shall cease to be a Material Subsidiary and any such transferee which is not already a Material Subsidiary shall thereupon be deemed to be a Material Subsidiary until the next audited consolidated IFRS financial statements of ABH Financial are prepared after which whether it is or is not a Material Subsidiary shall be determined in accordance with (i) above; and

(iii) subject to (ii) above, if as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation of a Material Subsidiary which immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation satisfied either of the tests referred to in (i) or (ii) above, but immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation does not satisfy any of such tests, shall cease to be a Material Subsidiary for the purposes of this definition;

Within 10 Moscow Business Days of a request therefor from the Lender or the Trustee, the Borrower shall, or shall request that ABH Financial, provides a certificate (in the English language if so requested by the relevant party) signed by a director of ABH Financial as to the proper extraction of the figures used in determining a Material Subsidiary and the mathematical accuracy of the calculations, and such certificate shall, in the absence of manifest error, be conclusive and binding on the Lender and the Borrower.

A "**Negative Ratings Event**" shall be deemed to have occurred:

(i) if, at any time upon or following the announcement or (in the absence of such an announcement) the occurrence of a Change of Control, until the date which is six months after the date of such an announcement or occurrence, as the case may be, of the relevant Change of Control (such period, the "**Relevant Period**"), the Lowest Rating shall be downgraded or withdrawn; or

(ii) if at any time during the Relevant Period, any rating of any rated security or any corporate rating of the Issuer, ABH Financial or Alfa-Bank assigned by any other Rating Agency and

existing on the Business Day immediately preceding the commencement of the Relevant Period, shall be downgraded to a rating below the Lowest Rating or withdrawn by such Rating Agency;

"**Noteholder**" means, in relation to a Note, the person in whose name such Note is for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof).

"**Notes**" means the U.S.$1,000,000,000 7.75 per cent. loan participation notes due 2021 proposed to be issued by the Lender pursuant to the Trust Deed.

"**Officers' Certificate**" means a certificate signed: (i) in the case of the Borrower, by two officers of the Borrower, at least one of whom shall be the chief executive officer, a director, a chief financial officer, chief legal officer or general director of the Borrower; and (ii) in the case of ABH Financial, by one director of ABH Financial.

"**Opinion of Counsel**" means a written opinion from legal counsel who is acceptable to the Trustee, which counsel may be an employee of or counsel to the Borrower.

"**Paying Agent**" means the Principal Paying Agent or such other paying agent as may be appointed from time to time in connection with the Notes.

"**Permitted Disposal**" means the sale, lease, transfer, dividend or other disposition of:

(i) any of the assets of the Group referred to in note 11 (Investments) to the audited consolidated annual financial statements of ABH Financial for the year ended 31 December 2010, or acquired or held by the Group for investment purposes and identified as such in the latest audited consolidated IFRS financial statements of ABH Financial;

(ii) any asset acquired by the Group (as creditor) through foreclosure, insolvency, bankruptcy or equivalent proceedings and/or as a result of any default by another party in respect of any agreement to which a member of the Group is a creditor and/or the restructuring of any obligation owed to any member of the Group as creditor by another party;

(iii) any asset acquired by or held by the Group and not used in connection with Banking Business, the disposal of which would not have a Material Adverse Effect, and any real property acquired by or held by the Group;

(iv) any asset pursuant to a True Sale Securitisation Transaction or a Securitisation Transaction; and

(v) cash or other consideration for the acquisition of any asset on normal commercial terms.

"**Permitted Lien**" means any:

(i) Lien granted by the Borrower, ABH Financial or a Material Subsidiary which is existing as at the Closing Date;

(ii) netting or set-off arrangement entered into by the Borrower, ABH Financial or a Material Subsidiary in the ordinary course of its Banking Business and/or business (as applicable) for the purpose of netting debit and credit balances;

(iii) Lien securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with any of the Borrower, ABH Financial or any Material Subsidiary; provided that such Lien was not created in contemplation of such merger or consolidation

and does not extend to any other assets, income or property of any of the Borrower, ABH Financial or any Material Subsidiary;

(iv) Lien on assets or property, which is:

(a) existing on real property acquired by the Borrower, ABH Financial or a Material Subsidiary; and/or

(b) created by the Borrower, ABH Financial or a Material Subsidiary on assets or property on or following the acquisition by the Borrower, ABH Financial or Material Subsidiary, as the case may be, of such assets or property;

provided that such Lien does not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(v) Lien on any real property of the Borrower, ABH Financial or a Material Subsidiary, provided that such Lien does not extend to any other assets or property;

(vi) Lien incurred, or pledge and deposit in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;

(vii) Lien imposed by law, including, without limitation, a mechanics', carriers', warehousemen's, materialmen's, suppliers' and vendors' Lien in the ordinary course of business;

(viii) Lien for ad valorem, income or property taxes or assessments and similar charges which either is not delinquent or is being contested in good faith by appropriate proceedings for which the Borrower, ABH Financial or Material Subsidiary, as the case may be, has set aside on its books reserves to the extent required by IFRS or Russian Accounting Standards (as applicable);

(ix) easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Lien arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower, ABH Financial or any of the Material Subsidiaries and existing, arising or incurred in the ordinary course of business;

(x) (a) bankers' Lien in respect of deposit accounts, (b) statutory landlords' Lien, (c) deposit to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in subclauses (a), (b) and (c) above of this clause (x), such Lien (A) does not secure obligations constituting Indebtedness for borrowed money and (B) is incurred in the ordinary course of business), and (d) Lien arising from any judgment, decree or other order which does not constitute an Event of Default;

(xi) any renewal of or substitution for any Lien permitted by any of the preceding paragraphs (i) through (x); provided, however, that, with respect to any Lien incurred pursuant to this paragraph the principal amount secured has not increased and such Lien has not been extended to any additional property (other than proceeds of the property in question);

(xii) any Lien created in respect of or in connection with a Securitisation Transaction;

(xiii) any Lien arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market in connection with the Borrower's proprietary trading activities (and for the purpose of raising credit or funds related to the securities transaction itself);

(xiv) any Lien granted by any member of the Group to another member of the Group;

(xv) any Lien incurred by the Borrower, ABH Financial or a Material Subsidiary in connection with and/or in the ordinary course of Banking Business (but excluding any Securitisation Transaction); and

(xvi) any other Lien not otherwise described in subparagraphs (i) through (xv) above, provided that the aggregate amount of Indebtedness secured thereby shall not exceed 20 per cent. of the total liabilities of ABH Financial (as determined by reference to the latest audited consolidated IFRS financial statements of ABH Financial).

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Principal Paying Agent**" has the meaning given to it in the Agency Agreement.

"**Prospectus**" has the meaning given to it in the Subscription Agreement.

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Russia under which the payment of interest by Russian borrowers to lenders in the jurisdiction in which the lender is incorporated is generally able to be made without deduction or withholding of Russian income tax upon completion of any necessary formalities required in relation thereto.

"**Rate of Interest**" has the meaning given to it in Clause 4.1 (*Rate of Interest*).

"**Rating Agency**" means Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc., Moody's Investors Services, Inc. or Fitch Ratings Ltd., or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Issuer, the Borrower or ABH Financial, as the case may be, from time to time with the prior written approval of the Trustee;

"**Regulation S Global Note**" means the single, permanent global Note in fully registered form, without interest coupons, substantially in the form set out in Part A of Schedule 1 of the Trust Deed and includes any replacements for the Regulation S Global Note issued pursuant to Condition 13.

"**Repayment Date**" means 28 April 2021.

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement, whether entered into for proprietary purposes or client purposes, or any agreement relating to securities which is analogous to, or similar in effect to any of the foregoing and for the purposes of this definition, the term "securities" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any private or public company, any government or agency or instrumentality thereof or any supranational, international or multinational organisation.

"**Rouble**" means the lawful currency of Russia.

"**Rule 144A Global Note**" means the single, permanent global Note in fully registered form, without interest coupons, substantially in the form set out in Part B of Schedule 1 of the Trust Deed and includes any replacements for the Rule 144A Global Note issued pursuant to Condition 13.

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "Russian" shall be construed accordingly.

"**Sale/Leaseback Transaction**" means an arrangement with any lender or investor whereby that lender or investor leases to ABH Financial or one of the Material Subsidiaries any property or assets that have been sold by ABH Financial or one of the Material Subsidiaries to that lender or investor or to another person to whom that lender or investor has advanced funds on the security of the leased property or assets.

"**Same-Day Funds**" means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in Dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby.

"**Securitisation Transaction**" means any transaction or series of related transactions (in each case, including, but not limited to, securitisation transactions and other forms of structured finance transactions) involving the incurrence of Indebtedness by any member of the Group directly or indirectly backed by all or any portion of the Group's current or future assets or property (and revenues or rights arising therefrom) (including, but not limited to, (a) credit card receivables, debit card receivables, cheque receivables, cash remittances, workers' remittances, trade receivables or payment rights (including, but not limited to, under and/or in relation to SWIFT MT100-Series and SWIFT MT200-Series payment orders (and any successors thereto) and any other similar payment orders (such as any delivered via telex, the internet or any other manner)), (b) any other class of receivables whatsoever (whether payment rights, remittances, claims or otherwise), (c) loan assets, (d) assets which have the benefit of collateral (including, but not limited to, mortgage-backed assets), and/or (e) the rights of any member of the Group to receive and/or retain any or all payments (and related proceeds) made in connection with any of (a) to (d) above (including, but not limited to, any claims against any banks, financial institutions or credit institutions obliged to make, receive or collect such payments or involved with the making, collection or reception of such payments)) whatsoever (including, but not limited to, where such backing is achieved by means of the grant of security over any such assets, property or revenues or the sale of any such assets) and any such transaction or series of related transactions may include and make provision for rights of recourse (in addition to and distinct from any rights relating to the assets, property or revenues which are subject to the relevant transaction and which arise from any grant of security or sale, as aforementioned) against any member of the Group (including, but not limited to, rights of recourse which (a) arise upon any failure to perform or default by underlying obligors under any assets, property or revenues which are subject to the relevant transaction or (b) are triggered by any breach of any provision of or any failure to satisfy any condition or test contained in the transaction documentation, where such provision, condition or test relates to any assets, property or revenues which are subject to the relevant transaction) provided that the aggregate outstanding principal amount of such Indebtedness does not at the time of its incurrence, when aggregated with the principal amount of any Indebtedness incurred at that time pursuant to a Securitisation Transaction, exceed 30% of the consolidated total assets of the Group (as determined by reference to the latest audited consolidated IFRS financial statements of ABH Financial), save that where the outstanding principal amount of Indebtedness under any existing Securitisation Transaction is to be fully or partially repaid or refinanced with the proceeds of a transaction or series of transactions which itself or themselves will constitute a Securitisation Transaction, then the outstanding principal amount of Indebtedness under such Securitisation Transaction to be repaid or refinanced, as the case may be, will not be taken into account in calculating the foregoing 30% test.

"**Security**" means the security granted by the Lender to the Trustee over rights of the Lender under this Agreement, including an assignment of such rights in favour of the Trustee.

"**Specified Default**" means, in respect of any Indebtedness an event that is specified in the applicable documents relating to that Indebtedness as an event giving rise to a right to accelerate the repayment of the Indebtedness and in respect of which any applicable grace period has passed and requirement for further action or notice by any person has been met and which is of a kind similar or analogous to an Event of Default (as defined in Clause 11 (*Events of Default*)).

"**Subscription Agreement**" means the subscription agreement relating to the Notes dated the date hereof between the Lender, the Borrower, ABH Financial Limited and the managers named therein.

"**Subsidiary**" means, in relation to any Person, any corporation, association, partnership or other business entity of which more than 50 per cent. of the total voting rights of its share capital is at the time owned or controlled directly by such Person, such Person and one or more Subsidiaries of such Person or one or more Subsidiaries of such Person.

"**Synthetic Securitisation**" means any transaction or series of related transactions whereby any member of the Group acquires for payment (in the form of premium or otherwise) from a third party protection (in the form of a derivative contract, insurance or otherwise) against exposure to the risk of loss or default in respect of all or any portion of the Group's current or future assets or property and revenues or rights arising therefrom (whether or not such protection requires continued actual exposure to such assets, property, revenue or rights).

"**Taxes**" means any present and future tax, duty, levy, impost, assessment or other governmental charge or withholding of any nature (including penalties, interest and other liabilities related thereto).

"**Tax Indemnity Amounts**" has the meaning set out in Clause 7.2 (*Tax Indemnity*).

"**Taxing Authority**" has the meaning set out in Clause 7.1 (*Additional Amounts*).

"**True Sale Securitisation Transaction**" means any transaction or series of related transactions (in each case including, but not limited to, securitisation transactions and other forms of structured finance transactions) involving or including (i) the sale by any member of the Group of all or any portion of the Group's current or future assets or property (and revenues or rights arising therefrom) (including, but not limited to the assets, property revenues and rights set out in paragraphs (a) to (e) of the definition of Securitisation Transaction) to a company (the "**special purpose vehicle**"), (ii) the issuance by the special purpose vehicle of debt securities to fund (in part or in whole) the acquisition by the special purpose vehicle of such assets, property, rights and revenues, which debt securities are backed by such assets, property, rights and revenues, and (iii) no member of the Group becoming an issuer of debt securities or borrower of money or guarantor of any debt or borrowing including any such transaction that becomes recharacterised by any court of competent jurisdiction as a secured borrowing or similar transaction; and whether or not such transaction or series of transactions includes rights of recourse against any member of the Group including without limitation (a) upon any failure to perform or default by underlying obligors under any assets, property or revenues which are subject to the relevant transaction or (b) which are triggered by any breach of any provision of or any failure to satisfy any condition or test contained in the transaction documentation, where such provision, condition or test relates to any assets, property or revenues which are subject to the relevant transaction).

"**Trust Deed**" means the trust deed relating to the Notes to be dated the Closing Date between the Lender and the Trustee, as amended from time to time.

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

"**VAT**" means value added tax and any other tax of a similar nature.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in, or are defined by cross-reference to definitions in or other provisions of, the Trust Deed, the Notes (including the Conditions), the Agency Agreement or the Subscription Agreement shall have the meanings given to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to "Clause" or "sub-clause" are references to a Clause or sub-clause of this Agreement;

1.3.2 the terms "hereof, "herein" and "hereunder" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

1.3.3 words importing the singular number include the plural and vice versa;

1.3.4 the headings are for convenience only and shall not affect the construction hereof;

1.3.5 the "equivalent" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) Roubles and the second currency is (ii) U.S. Dollars (or vice versa), by the Central Bank at or about 10.00 a.m. (New York time or, as the case may be, Moscow time) on such date for the purchase of the first currency with the second currency;

1.3.6 a "month" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, provided that, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "months" shall be construed accordingly); and

1.3.7 the "Lender" or the "Borrower" shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests.

2 FACILITY

2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby grants to the Borrower, and the Borrower agrees to borrow from the Lender, a single disbursement term loan facility in an aggregate amount of U.S.$1,000,000,000.

2.2 Facility Fee

No later than one Business Day prior to the Closing Date, the Borrower shall pay the Facility Fee (as defined in clause 3.3 herein) to the Lender in connection with the provision of the Loan in accordance with the invoice to be issued by the Lender to the Borrower no later than two Business Days before the Closing Date. In the event that closing does not occur on the Closing Date, the Lender shall refund to the Borrower the Facility Fee within two Business Days of the Closing Date.

3 DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make an advance of U.S.$1,000,000,000 (the "**Advance**") to the Borrower and the Borrower shall make a single drawing in the full amount of the Advance.

3.2 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the full amount of the Advance to the Borrower's account no. 3582035217001, for the account of OJSC "ALFA-BANK" in Same-Day Funds.

3.3 Payment of Facility Fee

In consideration of the Lender making the Advance to the Borrower, the Borrower hereby agrees to pay to the Lender, in Same-Day Funds, a fee (the "**Facility Fee**") promptly, but in any event no later than 10.00 a.m. (New York City time) on 27 April 2011.

4 INTEREST

4.1 Rate of Interest

The Borrower will pay interest in U.S. Dollars to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 7.75 per cent. per annum (the "**Rate of Interest**"). The amount of interest payable in respect of each Interest Period will be U.S.$38,750,000.

4.2 Payment of Interest

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid semi-annually in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment or prepayment thereof unless payment of principal is withheld, refused or not made, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to (but excluding) the date on which payment in full of the principal thereof is made.

4.3 Calculation of Interest

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month the number of days elapsed.

5 REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan and, to the extent not already paid in accordance with Clause 4.2 (*Payment of Interest*), any accrued interest to (but excluding) the date of repayment not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the Event of Taxes or Increased Costs

If the Borrower is required to pay any Additional Amount as provided by Clause 7.1 (*Additional Amounts*) or any Tax Indemnity Amount as provided by Clause 7.2 (*Tax Indemnity*), or if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 9 (*Change in Law; Increase in Cost*), and in any such case such obligation cannot or could not be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not more than 60 nor less than 30 days' prior notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) on the date specified in the notice, together with any amounts then payable under Clauses 7.1 (*Additional Amounts*), 7.2 (*Tax Indemnity*) or 9 (*Change in Law; Increase in Cost*) and pay the accrued and unpaid interest on such outstanding principal amount up to and excluding such prepayment date. Prior to giving any such notice in the event of the Borrower being obliged to make an additional payment as referred to in this Clause 5.2, the Borrower shall address and deliver to the Lender an Officers' Certificate confirming that the Borrower would be required to make such payment and that the obligation to make such payment cannot or could not be avoided by the Borrower taking reasonable measures available to it.

5.3 Prepayment in the Event of Illegality

If, by reason of the introduction of any change in any applicable law, regulation, regulatory requirement or directive of any Agency after the date of this Agreement the Lender reasonably determines (such determination being accompanied, if so requested by the Borrower, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the Security and/or to charge or receive or to be paid interest at the rate then applicable to the Loan (an "**Event of Illegality**"), then upon notice by the Lender to the Borrower in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which the Lender so notified the Borrower. If such a basis has not been determined within such 30 days, then upon written notice by the Lender to the Borrower the Borrower shall prepay the Loan (without penalty or premium), in whole but not in part (together with interest accrued to the date of repayment) on the next Interest Payment Date or on such earlier date as the Lender shall certify to be necessary to comply with such requirements.

5.4 Prepayment upon Change of Control Put Event

5.4.1 Promptly, and in any event within 30 days after becoming aware of the occurrence of any Change of Control Put Event, the Borrower shall request that ABH Financial delivers to the Lender and the Trustee a written notice in the form of an Officers' Certificate, which

notice shall be irrevocable, stating that a Change of Control Put Event has occurred and stating the circumstances and relevant facts giving rise to such Change of Control Put Event.

5.4.2 If, following a Change of Control Put Event, any Noteholder has exercised its Change of Control Put Option, the Borrower shall on the Change of Control Put Settlement Date, prepay the Loan in an amount which corresponds to the aggregate principal amount of the Notes (as notified to the Borrower by the Paying Agents) in relation to which the Change of Control Put Option has been duly exercised together with interest accrued (if any) to the Change of Control Put Settlement Date in accordance with the Conditions.

5.5 Reduction of Loan upon Cancellation of Notes

The Borrower, ABH Financial or any Subsidiary of the Borrower or ABH Financial, as the case may be, may from time to time, in accordance with the Conditions, purchase Notes in the open market or by tender or by a private placement at any price and deliver to the Lender Notes, having an aggregate principal value of at least U.S.$1,000,000, together with a request for the Lender to present such Notes to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the Global Notes with instructions to cancel a specified aggregate principal amount of Notes (being at least U.S.$1,000,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower, ABH Financial or any Subsidiary of the Borrower or ABH Financial is entitled to give such instructions), whereupon the Lender shall, pursuant to Clause 8.1 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Notes). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes shall be deemed to be prepaid for all purposes as of the date of such cancellation and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

5.6 Payment of Other Amounts and Costs of Prepayment

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of this Clause 5 (except in the case of Clause 5.5), the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement.

5.7 Provisions Exclusive

The Borrower shall not prepay or repay the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

5.8 Notice of Discharge

Upon the repayment or prepayment, in accordance with this Clause 5, of the Loan together with any accrued interest thereon to the date of repayment or actual payment and all other sums payable by the Borrower pursuant to this Agreement, the Lender shall within five Business Days deliver to the Borrower a notice of discharge in the form of a deed drafted by the Borrower acknowledging the full and complete discharge of the Borrower's duties, obligations and liabilities under or in respect of the Loan Agreement and irrevocably and unconditionally releasing and discharging the Borrower from any and all future:

5.8.1 claims or demands that the Lender has or may have against the Borrower; and

5.8.2 duties, obligations and liabilities that the Borrower has, or may have, to the Lender,

under or in respect of this Agreement.

6 PAYMENT

6.1 Making of Payments

All payments of principal and interest to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be), and in the case of any payments made in connection with Clause 5 (*Repayment and Prepayment*) one Business Day prior to the date on which such prepayment or repayment is due to be made, in Same-Day Funds to the Account, or as the Trustee may otherwise direct following the occurrence of an Event of Default or a Relevant Event (as defined in the Trust Deed).

The Borrower shall, before 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be), and in the case of any other payments made in connection with Clause 5 (*Repayment and Prepayment*) one Business Day prior to the date on which such prepayment or repayment is due to be made, procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT the irrevocable payment instructions relating to such payment.

The Lender agrees with the Borrower that the Lender will not deposit any other monies into the Account and that no withdrawals shall be made from the Account other than for payments to be made in accordance with this Agreement and the Finance Documents.

6.2 No Set-Off or Counterclaim

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and shall be made free and clear of and without deduction for or on account of any set-off or counterclaim.

6.3 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 6.1 (*Making of Payments*), then the Borrower may agree with the Lender and the Trustee alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

7 TAXES

7.1 Additional Amounts

All payments made by the Borrower under or in respect of this Agreement shall be made (except to the extent required by law) free and clear of and without deduction or withholding for or on account of any Taxes imposed, collected, withheld, assessed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a "**Taxing Authority**") within Russia or Ireland. If the Lender or Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Russia or Ireland, as the case may be, references to jurisdiction in this Clause 7.1 shall be construed as references to Russia and/or Ireland and/or such other jurisdiction and in addition, upon enforcement of the fixed charge in the Finance Documents over certain rights, benefits and/or obligations under

this Agreement, references in this Clause 7.1 to "Ireland" shall be construed as references to the jurisdiction which the Trustee is a resident of and acting through for tax purposes.

If the Borrower is required by applicable law to make any deduction or withholding from any payment under or in respect of this Agreement for or on account of any such Taxes referred to in the preceding paragraph of this Clause 7.1, it shall, on the date such payment is made, pay such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender receives and retains a net amount in Dollars equal to the full amount which it would have received and retained had such deduction or withholding not been required and shall promptly account to the relevant authorities (within the time specified by legislation) for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefore to the relevant Taxing Authority. If the Lender is or will be subject to any liability or required to make any payment for or on account of Taxes in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under or in respect of any Notes, the Borrower shall on demand pay to the Lender an amount in Dollars equal to the loss, liability or cost which the Lender, or as the case maybe, Trustee has or will have (directly or indirectly) suffered for or on account of Tax by the Lender or the Noteholders.

7.2 Tax Indemnity

Without prejudice to the provisions of Clause 7.1 (*Additional Amounts*), if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged (or would be but for the limited recourse nature of the Notes) to make any withholding or deduction for or on account of any Taxes from any payment that is due, or would otherwise be due but for the imposition of any such withholding or deduction for or on account of any such Taxes, pursuant to the Notes, the Borrower agrees to pay to the Lender, no later than one Business Day prior to the date on which payment is due to the Noteholders, an additional amount as may be necessary to ensure that the Lender receives and retains a net amount in Dollars equal to such additional amount as the Lender is required to pay in order that the net amount received by the Noteholders after such deduction or withholding will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that any Noteholders are not entitled to such additional amounts pursuant to the terms and conditions of the Notes, repay such additional amounts to the Borrower as are recovered (it being understood that none of the Lender, or any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to such additional amount).

Without prejudice to, and without duplication of the provisions of Clause 7.1 (*Additional Amounts*), if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of any Noteholder) on account of Tax in respect of this Loan or in respect of the Notes imposed by any Taxing Authority in the jurisdiction in which the Lender is resident for tax purposes, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable, and in any event within 30 calendar days of, written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax properly payable) payable or incurred in connection therewith.

Any payments required to be made by the Borrower under this Clause 7.2 are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 7.2 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 7.1 (*Additional Amounts*).

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify the Borrower thereof.

7.3 Tax Credits and Refunds

If an Additional Amount is paid under Clause 7.1 (*Additional Amounts*) or a Tax Indemnity Amount is paid under Clause 7.2 (*Tax Indemnity*) by the Borrower and the Lender, in its absolute discretion, determines that it has received or been granted a credit against, a relief, remission for, or a repayment of any Taxes, then if and to the extent that the Lender determines that such credit, relief, remission or repayment (a "**Tax Benefit**") is in respect of or calculated with reference to the deduction or withholding giving rise to such increased payment, or as the case may be in respect of an additional payment with reference to the loss, liability or cost giving rise to the additional payment, the Lender shall, to the extent that it determines in its absolute discretion that it can do so without prejudice to its right to the amount of such credit, relief, remission or repayment and without worsening the position it would have been in had such Additional Amount or Tax Indemnity Amount not been required to be repaid, repay to the Borrower an amount equal to such amount as is attributable to such deduction or withholding or, as the case may be, such loss, liability or cost.

Nothing contained in this Clause 7.3 shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose any confidential information or any information relating to its tax affairs, any computations in respect thereof, or its business or any part of its business.

If the Borrower makes a withholding or deduction for or on account of Taxes from a payment under or in respect of this Agreement and if an Additional Amount is paid under Clause 7.1 (*Additional Amounts*) or a Tax Indemnity Amount is paid under Clause 7.2 (*Tax Indemnity*) by the Borrower, the Borrower may apply on behalf of the Lender to the relevant Russian Taxing Authority for a payment to be made by such authorities to the Lender with respect to such Tax. If, whether following a claim made on its behalf by the Borrower or otherwise, the Lender receives and retains such a payment ("**Russian Tax Payment**") from the Russian Taxing Authority with respect to such Taxes, it will as soon as reasonably possible notify the Borrower that it has received and retained that payment (and the amount of such payment); whereupon, provided that the Borrower has notified the Lender in writing of the details of an account (the "**Borrower Account**") to which a payment or transfer should be made, and that the Lender is able to make a payment or transfer under applicable laws and regulations and without worsening the position it would have been in had such Additional Amount or Tax Indemnity Amount not been required to be paid, the Lender will pay or transfer an amount equal to the Russian Tax Payment to the Borrower Account.

7.4 Tax Treaty Relief

The Lender, at the cost and upon the instructions of the Borrower, shall make reasonable and timely efforts to assist the Borrower with completing procedural formalities necessary to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and the jurisdiction in which the Lender is resident, including its obligations under Clause 7.5 (*Delivery of Forms*).

7.5 Delivery of Forms

The Lender shall, at the cost of the Borrower and at the request of the Borrower, but not later than 20 calendar days prior to the date of the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year, but not later that 20 Business days prior to the first Interest Payment Date in that year), use its best efforts to deliver to the Borrower a certificate issued by the Revenue Commission in Ireland (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) confirming the status of the Lender as a resident of Ireland for the purposes of the Agreement between Ireland and the Russian Federation for the avoidance of double taxation with respect to taxes on income (the "**Ireland-Russia DTT**") for the appropriate year (or such Qualifying Jurisdiction in which the Lender or any successor thereto is resident for tax purposes) (the "**Residency Certificate**"), provided the Residency Certificate shall be properly legalised or apostilled by the Lender. The Lender shall (to the extent it is able to do so under applicable law including Russian laws) from time to time, deliver to the Borrower at the cost and request of the Borrower any other documents, together with a power of attorney in the form provided by the Borrower with an independent English translation thereof authorising the Borrower to make the relevant filings with the Russian tax authorities and such other information as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Russian tax after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian tax has not been obtained. The Lender shall not be responsible for any failure to provide, or any delays in providing, the Residency Certificate as a result of any action or inaction of any authority of Ireland (provided that such Residency Certificate has been properly requested by the Lender and reasonably sufficient time has been allowed for the authorities in Ireland to issue such certificate), but shall notify the Borrower as soon as practicable about any such failure or delay with an indication of the actions taken by the Lender to obtain such Residency Certificate. The application form and, if required, other documents provided by the Lender referred to in this Clause 7.5 shall at the cost of the Borrower be duly signed by the Lender, if applicable, and stamped or otherwise approved or certified by the Revenue Commissioners in Ireland, if applicable, and the power of attorney shall at the cost of the Borrower be duly signed and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian tax or a tax refund under this Clause 7.5 has not been obtained and further to an application of the Borrower to the relevant Russian tax authorities the latter requests the Lender's Rouble bank account details, the Lender shall at the request of the Borrower (a) use reasonable efforts to procure that such Rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such Rouble bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such Rouble bank account.

The Borrower and the Lender (using its best endeavours and in accordance with applicable law) agree that should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding or the interpretation thereof by the relevant competent authority change, then the procedure referred to in this Clause 7.5 will be deemed changed accordingly.

The Borrower shall advise the Lender as soon as reasonably practicable of any modification to or development in Russian tax laws and regulations which affect or are capable of affecting the relief of the Lender from Russian withholding tax in respect of payments under this Agreement in order to ensure that, prior to the first Interest Payment Date and at the beginning of each calendar year, the Lender can provide the Borrower with the documents required under applicable Russian law for the relief of the Lender from Russian withholding tax in respect of payments under this Agreement.

7.6 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 7.1 (*Additional Amounts*) or 7.2 (*Tax Indemnity*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, in writing and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that the parties can do so without taking any action which in the reasonable opinion of such party is prejudicial to its own position, take such reasonable steps as may be reasonably available to it to avoid such obligation or mitigate the effect of such circumstance, including the case of the Lender (without limitation) by transfer of its rights or obligations under this Agreement (but only in accordance with the terms and conditions of the other Finance Documents); provided, however, that the Lender shall, in no circumstances, be required to undertake any expense prior to being ensured to its satisfaction that it will be reimbursed therefore.

7.7 Lender Notification

The Lender agrees promptly, upon becoming actually aware thereof, to notify the Borrower if it ceases to be resident in Ireland or a Qualifying Jurisdiction.

8 CONDITIONS PRECEDENT

The obligation of the Lender to make the Advance shall be subject to the conditions precedent that as at the Closing Date (a) the representations and warranties set out in Clauses 3.1 (*Representations and Warranties of Alfa-Bank*) and 3.2 (*Representations and Warranties of ABH Financial*) of the Subscription Agreement are true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) the Borrower shall not be in breach of any of the material terms, conditions and provisions of this Agreement, (c) the Lender shall have received the full funding of the Advance from the Noteholders and that funding shall be and remain available in full to be on-lent to the Borrower and (d) the Lender shall have received in full the Facility Fee pursuant to Clause 2 hereof.

9 CHANGE IN LAW; INCREASE IN COST

9.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority which:

9.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any

Taxes payable by the Lender on its overall net income, capital gains or any Taxes referred to in Clause 7.1 (*Additional Amounts*)); or

9.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clause 7.1 (*Additional Amounts*)); or

9.1.3 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining the Loan or the Facility, is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming actually aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificate; and

(b) the Borrower, in the case of Clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; provided, however, the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement,

provided, however, that this Clause 9.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 7.1 (*Additional Amounts*) or Clause 7.2 (*Tax Indemnity*).

9.2 Lender Tax Event

If, as a result of a change in the law, practice or interpretation of the law, the Lender is unable to obtain relief in computing its Irish tax liability for some or all of the interest payable on the Notes (having duly and timely claimed such relief and notwithstanding receipt of confirmation from the relevant tax authorities that such relief is available), the Borrower agrees to pay such additional amount to the Lender that the Lender reasonably determines would be necessary to ensure the Lender receives the amount it would have received and retained had such relief been obtained. The Borrower's obligation to pay such additional amounts shall survive the termination of this Agreement.

9.3 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 9.1 (*Compensation*) or 9.2 (*Lender Tax Event*) the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 9.3 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless the Borrower agrees to reimburse the Lender such costs or expenses.

10 COVENANTS

So long as the Loan or any other sum owing hereunder remains outstanding:

10.1 Negative Pledge

So long as any Note remains outstanding the Borrower shall not, and shall request that ABH Financial shall not, and shall instruct and direct that any Material Subsidiary shall not, directly or indirectly, create, incur or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, securing any Indebtedness unless (i) the Notes are secured equally and rateably with such other Indebtedness or (ii) such other security for the Notes, as may be approved by the Trustee or an Extraordinary Resolution or Written Resolution of the Noteholders, is provided.

10.2 Limitation on Affiliate Transactions

The Borrower shall not, and shall request that ABH Financial and its Subsidiaries do not, and shall instruct and direct that no Subsidiary of the Borrower shall, directly, or indirectly, conduct any business or permit to exist or enter into any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property, the rendering of any service, the making of any loan or guarantee or the creation of any other contingent obligation, whether directly or indirectly) with or for the benefit of any of its respective Affiliates (each an "**Affiliate Transaction**") unless:

(i) the terms of such Affiliate Transaction are no less favourable to the Borrower, ABH Financial or relevant Subsidiary, as the case may be, than those that would be obtained in a comparable arms-length transaction with a person that is not an Affiliate of such Person; and

(ii) if the fair market value of such Affiliate Transaction as determined by the appropriate decision-making body with the authority to make such decision of the Borrower, ABH Financial or relevant Subsidiary, as the case may be, of an Affiliate Transaction is in excess of 5 per cent. of the total assets of ABH Financial (as determined by reference to the latest

audited consolidated financial statements of ABH Financial prepared in accordance with IFRS), such decision-making body shall have received a written opinion from an Independent Appraiser (a copy of which opinion shall be provided to the Trustee) that such Affiliate Transaction is fair to the Borrower, ABH Financial or relevant Subsidiary, as the case may be, from a financial point of view; such written opinion of an Independent Appraiser may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties.

This Clause 10.2 does not apply to (a) compensation or employee benefit arrangements with any officer or director of any of the Borrower, ABH Financial or a Subsidiary, as the case may be, arising as a result of their employment contract, (b) any Affiliate Transaction between ABH Financial and any of its Subsidiaries or any Affiliate Transaction between any Subsidiaries of ABH Financial, (c) any Affiliate Transaction entered into prior to the Issue Date the terms of which were disclosed in the Prospectus, (d) any Permitted Disposal, (e) any Contemplated Disposal, (f) any ABH Financial Limited Permitted Reorganisation or (g) unless otherwise included within (a) through (g) as aforesaid, Affiliate Transactions involving an aggregate amount not to exceed U.S.$20,000,000 in any one calendar year.

10.3 Limitation on Restricted Payments

(i) Subject to Clause 10.3(ii) below, the Borrower shall request that ABH Financial will not, and will not permit any Subsidiary of ABH Financial to, directly or indirectly:

(a) declare or pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital other than dividends or distributions payable to any of the Borrower, ABH Financial or any Subsidiary thereof; or

(b) voluntarily purchase, redeem or otherwise retire for value any capital stock of either of the Borrower and ABH Financial, other than capital stock owned by either of the Borrower or ABH Financial payable to either the Borrower or ABH Financial,

any such action being referred to herein as a "**Restricted Payment**".

(ii) Notwithstanding Clause 10.3(i) above, the Borrower, ABH Financial and any Subsidiary may make a Restricted Payment if at the time of such payment no Default or Event of Default has occurred or would result therefrom and (a) the aggregate amount of all Restricted Payments (determined by reference to the consolidated financial statements of ABH Financial, prepared in accordance with IFRS) made by the Borrower, ABH Financial or any Subsidiaries does not exceed 50% of ABH Financial's net profit (as set out in such financial statements) aggregated on a cumulative basis during the period beginning on 1 January 2006 and ending on the last day of ABH Financial's last fiscal quarter ending prior to the date of such proposed Restricted Payment, (b) where such action is a Permitted Disposal, (c) where such dividend or distribution is made in order to effect a Contemplated Disposal, and/or (d) where such action is made in order to effect an ABH Financial Limited Permitted Reorganisation.

10.4 Maintenance of Capital Adequacy

(i) The Borrower shall request that ABH Financial does not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices to fall below 8%, such

recommendations to be as provided in such Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended in November 1991, and such calculation to be made by reference to the latest annual consolidated audited accounts of ABH Financial.

(ii) The Borrower shall not permit its total capital ratio to fall below the minimum total capital ratio required for the Borrower by the Central Bank, such calculation to be made by reference to the latest annual non-consolidated audited accounts of the Borrower. Should the Borrower carry on a banking business as a "credit institution" (as defined in Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions) in more than one jurisdiction, it shall not permit its total capital ratio to fall below the minimum ratio required for the Borrower by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for credit institutions in each such jurisdiction.

10.5 Maintenance of authorisations

The Borrower shall, and shall request that ABH Financial shall, and shall ensure that each other Material Subsidiary shall, take all action which may be necessary to (i) ensure the obtaining and continuance of, all consents, licences, approvals and authorisations required in or by the laws of the Russian Federation or any relevant jurisdiction or regulatory authority thereof or having regulatory authority therein and (ii) make or cause to be made all registrations, recordings and filings which may at any time be required to be obtained or made in the Russian Federation or any relevant jurisdiction or regulatory authority thereof or having regulatory authority therein where failure to obtain or continue any such consent, licence, approval or authorisation or make any such registration, recording or filing is likely to have a Material Adverse Effect.

10.6 Limitation on change of business

The Borrower shall not, and shall request that ABH Financial shall not, make any change to the general nature or scope of its business from that carried on as of the Issue Date which is likely to have a Material Adverse Effect.

10.7 Limitation on sale of assets

The Borrower shall not, shall request that ABH Financial and its Subsidiaries shall not, and shall instruct and direct that no other Subsidiary of the Borrower shall, in any financial year, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not, but not including Permitted Disposals, Contemplated Disposals or any ABH Financial Limited Permitted Reorganisation), the whole or any part of its assets which results in a decrease in excess of 5% in the consolidated total assets of the Group (as determined by reference to the latest audited consolidated IFRS financial statements of ABH Financial) to any person unless such transaction:

(i) is on an arm's length basis and on commercially reasonable terms; and

(ii) has been approved by a resolution of the Board of Directors of the relevant company resolving that the transaction complies with the requirements of this Clause and such resolution has been adopted by a majority of the disinterested members of such Board of Directors or, if there are insufficient disinterested members, by a majority of such Board of Directors acting in good faith or, in the case of the Borrower or any of its Subsidiaries incorporated in Russia, approved by any relevant managing body of the Borrower, adopted in good faith and in accordance with the relevant requirements of the laws of the Russian

Federation and the Borrower's constitutive documents and that a copy (in English) of such resolution has been delivered to the Trustee.

10.8 Limitation on merger and consolidation

The Borrower shall not, and shall request that ABH Financial and its Subsidiaries shall not, and shall instruct and direct that no other Subsidiary of the Borrower shall, without the prior written consent of the Trustee, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms may be construed in accordance with applicable laws or participate in any other type of corporation reconstruction, other than any Contemplated Disposal (each such reorganisation or reconstruction, other than any Contemplated Disposal, a "**Reorganisation**")) unless such Reorganisation would not or does not result in a Material Adverse Effect. A Reorganisation in accordance with this Clause pursuant to which a Person ("**ABH Financial Limited's Successor**") consolidates or amalgamates with ABH Financial Limited or merges with or into ABH Financial Limited, or pursuant to which all or substantially all of the assets of ABH Financial Limited (for the purposes of this Clause, all of ABH Financial Limited's shares in the Borrower whether held directly or indirectly shall be deemed to be "substantially all" of the assets of ABH Financial Limited at the time of such transfer) are transferred to ABH Financial Limited's Successor, shall be deemed to not result in a Material Adverse Effect provided that ABH Financial Limited's Successor (i) holds and/or controls (directly or indirectly) in excess of 50 per cent. of the shares in the Borrower (ii) ABH Financial Limited's Successor produces financial statements in accordance with IFRS and (iii) has either (x) acquired the rights and assumed the obligations of ABH Financial Limited under the Existing ABH Financial Deed of Guarantee or (y) entered into a new deed of guarantee with the Lender on substantially the same terms as the Existing ABH Financial Deed of Guarantee, (such Reorganisation being an "**ABH Financial Limited Permitted Reorganisation**").

10.9 Limitation on restrictions on distributions from Material Subsidiaries

The Borrower shall not, and shall request that ABH Financial shall not, and shall request that ABH Financial shall not permit any other Material Subsidiary (other than the Borrower) to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Material Subsidiary (other than the Borrower) to (i) pay dividends or make any other distributions on its share capital; (ii) make any loans or advances or pay any Indebtedness owed to either the Borrower or ABH Financial; or (iii) transfer any of its property or assets to either the Borrower or ABH Financial, other than:

(a) encumbrances or restrictions existing under the Notes or the Trust Deed;

(b) any agreement in effect prior to the Issue Date and notified in writing to the Trustee;

(c) any encumbrance or restriction with respect to an entity that becomes a Material Subsidiary after the Issue Date pursuant to an agreement relating to any Indebtedness incurred prior to the date on which such Subsidiary becomes a Material Subsidiary (to the extent such encumbrance or restriction was not put in place in anticipation of such entity becoming a Material Subsidiary) and outstanding on such date;

(d) any encumbrance or restriction pursuant to an agreement effecting a refinancing of Indebtedness incurred pursuant to an agreement referred to in Clause 10.9(b) or Clause 10.9(c) above or contained in any amendment, modification, restatement, renewal, increase, supplement, refunding or replacement of an agreement referred to in Clause 10.9(b) or Clause 10.9(c) above; provided however that the encumbrances and restrictions with respect to such Material Subsidiary contained in any such refinancing agreement or

amendment, modification, restatement, renewal, increase, supplement, refunding or replacement agreements are no more restrictive in any material respect than those encumbrances and restrictions, taken as a whole, with respect to such Material Subsidiary contained in such predecessor agreements; and

(e) any encumbrance or restriction that is a result of applicable law or legislation.

11 EVENTS OF DEFAULT

11.1 Events of Default

If one or more of the following events shall occur (but in the case of the happening of any of the events mentioned in Clauses 11.1.5, 11.1.6, 11.1.8, 11.1.9, 11.1.10, 11.1.11, 11.1.13 or 11.1.14 below (in each case so far as they relate to a Material Subsidiary other than the Borrower) or Clauses 11.1.2, and 11.1.16 below, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) (each, an "**Event of Default**"), the Lender shall be entitled to the remedies set forth in Clause 11.3.

11.1.1 **Non Payment**

default is made for more than seven days in the payment on the due date of interest or principal payable hereunder; or

11.1.2 **Breach of Other Obligations**

the Borrower fails to perform or comply with any one or more of its obligations under this Agreement which default is incapable of remedy or if, in the opinion of the Trustee, capable of remedy, is not to the satisfaction of the Trustee remedied within 30 days after notice of such default shall have been given to the Borrower by the Trustee; or

11.1.3 **Cross Default**

(i) any Indebtedness (other than an Acquired Indebtedness and/or Domestic Debt) of the Borrower, ABH Financial or any Material Subsidiary becomes, as a result of a Specified Default that is not an Excluded Event, due and payable prior to its stated maturity otherwise than at the option of the Borrower, ABH Financial or such Material Subsidiary, as the case may be; or

(ii) any Indebtedness of the Borrower or ABH Financial (other than an Acquired Indebtedness and/or Domestic Debt) is not paid when due or, as the case may be, within any applicable grace period; or

(iii) the Borrower or ABH Financial fails to pay when due (or within any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness (other than an Acquired Indebtedness and/or Domestic Debt),

provided that the aggregate amount of the Indebtedness (without double counting) in respect of which one or more of the events mentioned above in this Clause 11.1.3 have occurred equals or exceeds U.S.$100,000,000 (or its equivalent in any other currency or currencies); or

11.1.4 **Judgment**

a final judgment or order or arbitration award for the payment of an aggregate amount in excess of U.S.$100,000,000 (or its equivalent in any other currency) is recorded or granted

against ABH Financial or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of 45 days after the date thereof or, if later, the date therein specified for payment; or

11.1.5 **Security Enforced**

an encumbrancer takes possession, or an administrative or other receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking or assets of ABH Financial or any Material Subsidiary, and where such action relates to a Material Subsidiary, the action is likely to have a Material Adverse Effect; or

11.1.6 **Insolvency**

any of the Borrower, ABH Financial or a Material Subsidiary:

(i) stops payment of all or a substantial part of its debts; or

(ii) otherwise than for the purposes of such a consolidation, amalgamation, merger, reconstruction or voluntary solvent winding-up or dissolution as is referred to in Conditions 11.1.7 (Winding up of the Borrower or ABH Financial) or 11.1.8 (Winding up of Material Subsidiary), ceases or through an official action of the Board of Directors of ABH Financial, the Borrower or such Material Subsidiary (as the case may be) threatens not to carry on business,

and where such action relates to a Material Subsidiary, the action is likely to have a Material Adverse Effect; or

11.1.7 **Winding up of the Borrower or ABH Financial**

an effective resolution is passed or an order of a court of competent jurisdiction is made that the Borrower or ABH Financial (other than as a result of an ABH Financial Limited Permitted Reorganisation) be wound up, liquidated or dissolved other than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction on terms approved by an Extraordinary Resolution; or

11.1.8 **Winding up of Material Subsidiary**

an effective resolution is passed or an order of a court of competent jurisdiction is made for the winding up or dissolution of any Material Subsidiary except:

(a) for the purposes of or pursuant to and followed by a consolidation, amalgamation with or merger into the Borrower or ABH Financial or any Subsidiary of ABH Financial, provided that the new entity formed or coming into existence as a result of such consolidation, amalgamation, merger or reconstruction of any such Material Subsidiary, shall be a Material Subsidiary;

(b) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reconstruction (other than described in (a) above) the terms of which shall have been previously approved in writing by an Extraordinary Resolution;

(c) by way of a voluntary winding up or dissolution as a result of which there are surplus assets of such Material Subsidiary attributable to ABH Financial which are to be distributed to ABH Financial, provided in each case that any Reorganisation in relation to which such resolution or order is passed or made would not breach Clause 10.8 (*Limitation on merger and consolidation*); or

(d) where the Borrower can demonstrate to the satisfaction of the Lender, that such resolution does not have and is not likely to have a Material Adverse Effect; or

11.1.9 **Insolvency Proceedings Initiated by a Third Party**

ABH Financial or any Material Subsidiary is declared insolvent or bankrupt by a competent court or judiciary, or proceedings shall have been initiated against either ABH Financial or any Material Subsidiary under any applicable bankruptcy, reorganisation or insolvency law provided that such proceedings shall not have been (i) discharged or stayed within a period of 120 days or (ii) demonstrated to the satisfaction of the Lender to be vexatious or frivolous, and provided further that where such proceedings are in relation to a Material Subsidiary, they shall be demonstrated to have a Material Adverse Effect; or

11.1.10 **Other Insolvency Proceedings**

ABH Financial or any Material Subsidiary shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make a general assignment for the benefit of, or enter into a general composition or arrangement with or for the benefit of, its creditors; or

11.1.11 **Moratorium**

a moratorium is agreed or declared in respect of any indebtedness of ABH Financial or any Material Subsidiary or any governmental authority or agency condemns, seizes, compulsorily purchases, transfers or expropriates all or a material part of the assets, licences or shares of ABH Financial or any Material Subsidiary and such seizure, compulsory purchase, transfer or expropriation by such governmental authority or agency is not reversed, ceased or terminated and the relevant assets, licences or shares (or part thereof) returned or transferred back to the relevant Person within seven days of the occurrence of such event; or

11.1.12 **Ownership**

ABH Financial ceases to hold and/or control (directly or indirectly) in excess of 50 per cent. of the shares in the Borrower; or

11.1.13 **Licences**

without prejudice to Clause 11.1.14 (*Banking Licence/CBR Reorganisation*), any licence, authorisation, exemption, permit or approval required by ABH Financial or any Material Subsidiary to carry on its respective business or any material part of its business is revoked or withdrawn or expires and is not renewed or otherwise ceases to apply or be in full force and effect and the failure to possess such licence, authorisation, exemption, permit or approval is likely to have a Material Adverse Effect; or

11.1.14 **Banking Licence/CBR Reorganisation**

(i) either of the Borrower's or, in the case of a Material Subsidiary which operates a banking business, such Material Subsidiary's banking licence is revoked, suspended, restricted or withdrawn or expires or is not renewed (on the same or substantially the same terms so far as applicable legislation permits) or otherwise ceases to be in full force and effect and, in the case of a Material Subsidiary, such revocation, suspension, restriction, withdrawal, expiry or non renewal is likely to have a Material Adverse Effect or (ii) the Central Bank initiates a reorganisation or appoints a temporary administrator of the

Borrower on account of the failure of the Borrower to pay its debts when they fall due or to comply with any applicable mandatory economic ratio prescribed by Russian legislation; or

11.1.15 **Illegality, etc**

any action, condition or thing at any time required to be taken, fulfilled or done in order to (i) enable the Borrower and ABH Financial lawfully to enter into and perform and comply with their respective obligations under and in respect of the Notes, and Trust Deed and the ABH Financial Deed of Guarantee, (ii) to ensure that those obligations are legal, valid and binding and enforceable and (iii) to make the Notes, the Trust Deed and the ABH Financial Deed of Guarantee admissible in evidence in the courts of Ireland, the Russian Federation and Cyprus is not taken, fulfilled or done; or

11.1.16 **Analogous Events**

any event occurs that under the laws of the Russian Federation, United Kingdom, United States of America or Ireland has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or

11.1.17 **Guarantee**

ABH Financial's payment obligations under the ABH Financial Deed of Guarantee are not (or are claimed by ABH Financial not to be) in full force and effect; or

11.1.18 **ABH Financial Breach of Covenant**

ABH Financial fails to comply with its obligations under Clause 2.9 (*Compliance with Loan Agreement*) of the ABH Financial Deed of Guarantee which default is incapable of remedy or if, in the opinion of the Trustee, capable of remedy, is not to the satisfaction of the Trustee remedied within 30 days after notice of such default has been given to ABH Financial by the Trustee.

11.2 Notice of Default

The Borrower shall, and shall request that ABH Financial deliver to the Lender and the Trustee (i) within seven Business Days of any written request by the Lender or the Trustee; or (ii) immediately upon becoming aware of the occurrence thereof, written notice in the form of an Officers' Certificate stating whether any Default or Event of Default has occurred, its status and what action the Borrower and ABH Financial is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur, the Lender and/or Trustee, as applicable in accordance with the Trust Deed, may, by notice in writing to the Borrower and ABH Financial, (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate; and (b) declare the Loan to be immediately due and payable by the Borrower and declare all other amounts accrued and/or payable hereunder by the Borrower up to (and including) the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

11.4 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11.5 Right of Set-off

If any amount payable by the Borrower hereunder is not paid as and when due, the Borrower authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of the Borrower in any currency that may at any time be in the possession of the Lender, at any branch or office, to the fullest extent of all amounts payable to the Lender hereunder.

12 DEFAULT INTEREST AND INDEMNITY

12.1 Default Interest Periods

If any sum due and payable by the Borrower hereunder is not paid on the due date therefor in accordance with the provisions of Clause 6 (*Payment*) or if any sum due and payable by the Borrower under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of the Borrower to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "**unpaid sum**") is discharged shall be divided into successive periods, each of which (other than the first, which shall commence on and shall include the day on which such unpaid sum is initially due and payable and unpaid) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 12 (*Default Interest and Indemnity*)) be selected by the Lender (but shall in any event not be longer than one month).

12.2 Default Interest

During each such period relating thereto as is mentioned in Clause 12.1 (*Default Interest Periods*) an unpaid sum shall accrue interest for each day it remains unpaid at a rate per annum equal to the Rate of Interest applicable at the time.

12.3 Payment of Default Interest

Any interest which shall have accrued under Clause 12.2 (*Default Interest*) in respect of an unpaid sum shall be due and payable and shall be paid by the Borrower at the end of the period by reference to which it is calculated or on such other dates as the Lender may specify by written notice to the Borrower.

12.4 Indemnification

The Borrower undertakes to the Lender that if the Lender or any director, officer or employee of the Lender (each an "**indemnified party**") incurs any loss, liability, cost, fee, claim, charge, expense (including, without limitation, Taxes, legal fees and expenses and any applicable stamp duties, capital duties and other similar duties payable, including any interest and penalties thereon or in connection therewith), demand, action and damages (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or such Notes being outstanding (other than in relation to tax on its own net income, profits or gains), the Borrower shall pay as reimbursement to the Lender on demand an amount equal to such Loss and all documented reasonable costs, charges and expenses (including any applicable taxes thereon) which may be incurred as a result of or arising out of or in relation to any failure to pay by the Borrower or delay by the Borrower in paying the same, unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in this Agreement.

12.5 Independent Obligation

Clause 12.4 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement and the other Finance Documents to which it is a party or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.6 Evidence of Loss

A certificate of the Lender setting forth the amount of the Loss described in Clause 12.4 (*Indemnification*) and specifying in full detail the basis therefore and calculations thereof shall, in the absence of manifest error, be conclusive evidence of the amount of such Loss.

12.7 Currency Indemnity

Each reference in this Agreement to Dollars is of the essence. To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due, the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in Dollars. Any obligation of the Borrower not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount of Dollars that may be so purchased exceeds the amount originally due, the Lender shall promptly repay the amount of the excess to the Borrower.

13 SURVIVAL

The obligations of the Borrower and the Lender pursuant to Clauses 7 (*Taxes*), 12.4 (*Indemnification*), 12.7 (*Currency Indemnity*) and 15.2 (*Lender's Costs*) shall survive the execution, delivery of this Agreement, the drawdown of the Facility, the repayment of the Loan and the termination of this Agreement.

14 GENERAL

14.1 Evidence of Debt

The entries made in the Account referred to in Clause 6.1 (*Making of Payments*) shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations recorded therein.

14.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.3 Prescription

Subject to the Lender having previously received from the Borrower the relevant principal amount or interest amount, the Lender shall repay to the Borrower the principal amount or the interest amount in respect of any Note upon its becoming void pursuant to its terms and conditions (as confirmed to the Lender by the Trustee).

15 FEES, COSTS AND EXPENSES

15.1 Costs relating to Preservation of Rights

The Borrower shall, from time to time on demand of the Lender, pay as reimbursement to the Lender an amount equating to all properly incurred and documented costs, taxes and expenses (including legal fees) together with any VAT (properly payable thereon) incurred in or in connection with the preservation or the enforcement of any of the rights of the Lender under this Agreement.

15.2 Lender's Costs

The Borrower shall, from time to time on demand of the Lender (and without prejudice to the provisions of Clause 15.1 (*Costs relating to Preservation of Rights*)) compensate the Lender for all properly documented out-of-pocket costs and expenses (including telephone, fax, copying and travel costs) (together with any taxes properly payable thereon) it may incur, in connection with the Lender taking such action as it may consider appropriate in connection with:

15.2.1 the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;

15.2.2 the occurrence of any Default or Event of Default; or

15.2.3 any amendment or proposed amendment to this Agreement requested by the Borrower.

16 NOTICES

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given in writing (in English) by email, facsimile, by hand or by courier addressed as follows:

16.1.1 if to the Borrower:

27 Kalanchevskaya Street
107078 Moscow
Russia

Fax: +7 495 788 6717
Attention: Head of Fixed Income
Email: simon_vine@alfabank.ru

Fax: +7 495 786 4274
Attention: Head of Compliance
Email: ikononenko@alfabank.ru

Fax: +7 495 795 7346
Attention: Chief Financial Officer
Email: abaxter@alfabank.ru

16.1.2 if to the Lender:

53 Merrion Square
Dublin 2
Ireland

Fax: +3531 614 6250
Attention: The Directors

or to such other address or fax number as any party may hereafter specify in writing to the other. Every notice or other communication sent in accordance with this Clause 16 shall be effective upon receipt by the addressee on a Business Day in the city of the recipient, provided *however*, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day, shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the place of the addressee.

17 ASSIGNMENT

(a) This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective successors and any permitted assignee or transferee of some or all of such party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the assignment pursuant to the grant of the Security referred to in Clause 17(c) below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender or any discussions or agreements between or of the Borrower and the Lender pursuant to sub-Clauses 5.4, 7.3, 7.5, 7.6 or 9.3.

(b) The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other party.

(c) The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except to the Trustee by granting the Security or pursuant to and in compliance with Clause 26 of the Trust Deed.

18 GOVERNING LAW AND JURISDICTION

18.1 Governing law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

18.2 Jurisdiction

The parties irrevocably agree that any dispute arising out of or in connection with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 18.2 (a "**Dispute**"), shall be resolved:

18.2.1 subject to sub-Clause 18.2.2, by arbitration in London, England, conducted in the English language by three arbitrators (with the claimant(s), irrespective of number, jointly nominating one arbitrator, and the respondent(s), irrespective of number, jointly nominating one arbitrator), in accordance with the rules set down by the LCIA (formerly the London Court of Arbitration) (the "**LCIA Rules**"), which rules are deemed to be incorporated by reference into this Clause 18.2, save that:

(i) any provision of such LCIA Rules relating to nationality of an arbitrator shall, to that extent, not apply;

(ii) Article 5.6, of the LCIA Rules shall be amended to read as follows: "Unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court"; and

(iii) Article 2.1 of the LCIA Rules shall be amended in respect of any Response (as defined in the LCIA Rules) to be given by the Lender such that the Response shall be sent to the Registrar (as defined in the LCIA Rules) within 60 days of service of the Request for Arbitration.

Save as provided in sub-Clause 18.2.2, the parties agree to exclude the jurisdiction of the English courts under Sections 45 and 69 of the Arbitration Act 1996; or

18.2.2 at the sole option of the Lender, by proceedings brought in the courts of England, which courts are to have non-exclusive jurisdiction. If the Lender is in the position of a respondent and wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 60 days of service on it of a request for arbitration in accordance with sub-Clause 18.2.1.

For the avoidance of doubt, sub-Clause 18.2.2 is for the benefit of the Lender alone and shall not limit the right of the Lender to bring proceedings in any other court of competent jurisdiction.

18.3 Appropriate forum

Each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

18.4 Lender's process agent

The Lender irrevocably appoints Alfa Capital Holdings (Cyprus) Limited's representative office – Alfa Capital Markets London (the "**Lender's Agent**"), now of 14th Floor, 1 Angel Court, London EC2R 7HJ, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

18.4.1 service upon the Lender's Agent shall be deemed valid service upon the Lender whether or not the process is forwarded to or received by the Lender;

18.4.2 the Lender shall inform all other parties to this Agreement, in writing, of any change in the address of the Lender's Agent within 28 days of such change;

18.4.3 if the Lender's Agent ceases to be able to act as a process agent or to have an address in England, the Lender irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Agreement and to deliver to the other parties to the Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

18.4.4 nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

18.5 Borrower's process agent

The Borrower irrevocably appoints Alfa Capital Holdings (Cyprus) Limited's representative office – Alfa Capital Markets London ("**Borrower's Agent**"), now of 14th Floor, 1 Angel Court, London EC2R 7HJ, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

18.5.1 service upon the Borrower's Agent shall be deemed valid service upon the Borrower whether or not the process is forwarded to or received by the Borrower;

18.5.2 the Borrower shall inform all other parties to this Agreement, in writing, of any change in the address of the Borrower's Agent within 28 days of such change;

18.5.3 if the Borrower's Agent ceases to be able to act as a process agent or to have an address in England, the Borrower irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Agreement and to deliver to the other parties to the Agreement within 14 days a copy of a written acceptance of appointment by the new process agent; and

18.5.4 nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

18.6 Waiver of immunity

To the extent the Borrower may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, the Borrower irrevocably waives such immunity to the extent permitted by the laws of such jurisdiction.

19 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement other than the Trustee.

20 COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

21 SEVERABILITY

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

22 LIMITED RECOURSE AND NON PETITION

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received from the Borrower and/or ABH Financial, as the case may be, by or for the account of the Lender (after deduction or withholding of such taxes or duties as may be required to be made by the Lender by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding additional payment (also after deduction or withholding of such taxes or

duties as may be required to be made by the Issuer in respect thereof) pursuant to this Agreement and/or the ABH Financial Deed of Guarantee, as the case may be) pursuant to this Agreement and/or the ABH Financial Deed of Guarantee, as the case may be (the "**Lender Assets**"), subject always (1) to the Security Interests (as defined in the Trust Deed) and (2) to the fact that any claims of the Managers (as defined in the Subscription Agreement) pursuant to the Subscription Agreement shall rank in priority to any claims of the Borrower hereunder, and that any such claim by any and all such Managers or the Borrower shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts fraudulently, in bad faith or is negligent in the context of its obligations.

The ABH Financial Deed of Guarantee

The following is the text of the ABH Financial Deed of Guarantee, which has been entered into between ABH Financial and the Issuer

THIS DEED OF GUARANTEE (the "**Deed of Guarantee**") is made on 21 April 2011

BY

(1) **ABH FINANCIAL LIMITED**, a company incorporated under the laws of Cyprus whose registered office is Themistokli Dervi, 5, Elenion Building, 2nd Floor, P.C. 1066, Nicosia Republic of Cyprus ("**ABH Financial**"),

IN FAVOUR OF

(2) **ALFA BOND ISSUANCE PLC**, a company incorporated under the laws of Ireland, whose registered office is 53 Merrion Square, Dublin 2, Ireland (the "**Issuer**").

RECITALS

(A) The Issuer has authorised the creation and issue of U.S.$1,000,000,000 in aggregate principal amount of 7.75 per cent. loan participation notes due 2021 (the "**Notes**") to be constituted by a trust deed dated 28 April 2011 (the "**Trust Deed**") for the sole purpose of financing a loan to OPEN JOINT-STOCK COMPANY "ALFA-BANK" ("**Alfa-Bank**"), a legal entity under the control of ABH Financial, subject to, and in accordance with, a loan agreement between the Issuer, as lender, and Alfa-Bank, as borrower, dated 21 April 2011 (the "**Loan Agreement**").

(B) In consideration of the agreement of the Issuer to enter into the Loan Agreement, ABH Financial has agreed to enter into this Deed of Guarantee with the Issuer to guarantee unconditionally and irrevocably the performance of all payment and other obligations of Alfa-Bank under the Loan Agreement.

NOW IT IS HEREBY AGREED as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Deed of Guarantee (including the recitals), unless otherwise defined herein the following terms shall have the meanings indicated.

"**incur**" means issue, assume, incur or otherwise become liable for.

"**Loan**" means, at any time, an amount equal to the aggregate principal amount of the Facility (as defined in the Loan Agreement) advanced by the Issuer pursuant to the Loan Agreement and outstanding at such time.

"**Loan Guarantee**" shall have the meaning given to it in Clause 2.1.

"**person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Deed of Guarantee which are not defined in this Deed of Guarantee but which are defined in the Loan Agreement shall have the meanings assigned to such terms therein.

1.3 Clauses

Any reference in this Deed of Guarantee to a Clause is, unless otherwise stated, to a clause hereof.

1.4 Recitals

The Recitals are part of this Deed of Guarantee and shall have effect accordingly.

1.5 Headings

Headings and sub-headings are for ease of reference only and shall not affect the construction of this Deed of Guarantee.

1.6 References to Agreements

All references in this Deed of Guarantee to an agreement, instrument or other document shall be construed as a reference to that agreement, instrument or other document as the same may be amended, restated, supplemented, replaced or novated from time to time.

2 LOAN GUARANTEE AND INDEMNITY

2.1 Loan Guarantee

ABH Financial irrevocably and unconditionally guarantees to the Issuer (i) the due and punctual payment by Alfa-Bank of any sum payable by it under the Loan Agreement (including principal, interest, any premium or any other amounts of whatsoever nature or additional amounts, which may become payable under any of the foregoing) in full when and as the same shall become due and payable whether on any Interest Payment Date, by declaration of acceleration, in connection with prepayment, or otherwise, and (ii) the due and punctual performance of all other obligations of Alfa-Bank to the Issuer. In case of the failure of Alfa-Bank to punctually make any such payment or the failure of Alfa-Bank to perform any such other obligation, ABH Financial hereby agrees to cause any such payment to be made punctually when and as the same shall become due and payable, whether on the Repayment Date, by declaration of acceleration, in connection with a prepayment or otherwise, and as if such payment were made by Alfa-Bank, or to perform any such other obligation of Alfa-Bank immediately. ABH Financial hereby further agrees to pay any and all expenses (including reasonable legal counsel fees and expenses) incurred by the Issuer in enforcing any rights it has under the guarantee given in this Clause 2.1 (the "**Loan Guarantee**").

2.2 ABH Financial as Principal Debtor

As between ABH Financial and the Issuer, but without affecting Alfa-Bank's obligations, ABH Financial will be liable under this Deed of Guarantee as if it was the sole principal debtor and not merely a surety. Accordingly, it will not be discharged, nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor (including (1) any time, indulgence, waiver or consent at any time given to Alfa-Bank or any other person, (2) the obtaining of any judgment against Alfa-Bank or any action to enforce the same or any other circumstance which might otherwise constitute a

legal or equitable discharge or defence of ABH Financial, (3) any amendment to any other provisions of the Loan Agreement or to any security or other guarantee or indemnity, (4) the enforcement or absence of enforcement of the Loan Agreement or of any security or other guarantee or indemnity, (5) the taking, existence or release of any security, guarantee or indemnity, (6) the dissolution, amalgamation, reconstruction or reorganisation of Alfa-Bank or any other person, (7) the illegality, invalidity or unenforceability of or any defect in any provision of the Loan Agreement or any of Alfa-Bank's obligations under it or (8) any act, event or omission which but for this sub-clause might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by ABH Financial herein or any of the rights, powers or remedies conferred upon the Issuer or ABH Financial by this Deed of Guarantee or by law).

2.3 ABH Financial's Obligations Continuing

ABH Financial's obligations under this Deed of Guarantee shall be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and in particular, but without limitation, shall not be considered satisfied by any intermediate payment or satisfaction of all or any of Alfa-Bank's obligations under or in respect of the Loan Agreement and shall continue in full force and effect until all obligations of Alfa-Bank thereunder or in respect thereof have been satisfied in full and a notice of discharge has been provided to Alfa-Bank in accordance with Clause 5.8 (*Notice of Discharge*) of the Loan Agreement. Furthermore, those obligations of ABH Financial are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person whether from ABH Financial or otherwise and may be enforced without first having recourse to Alfa-Bank, any other person, any security or any other guarantee or indemnity. ABH Financial irrevocably waives all notices and demands of any kind. Unless ABH Financial is substituted as principal debtor under the Loan Agreement in place of Alfa-Bank in accordance with Clause 15 (*Modifications*) of the Trust Deed, the guarantee and indemnity provisions of ABH Financial hereunder shall remain in full force and effect for so long as the Loan remains outstanding notwithstanding the sale, transfer or other disposition by ABH Financial of all or any part of the share capital of Alfa-Bank or any other interest of ABH Financial in Alfa-Bank.

2.4 Exercise of ABH Financial's Rights

So long as any sum remains payable under the Loan Agreement or Alfa-Bank is under any other actual or contingent obligation thereunder or in respect thereof:

2.4.1 any right that ABH Financial has, by reason of the performance of any of its obligations under this Deed of Guarantee, to be indemnified by Alfa-Bank or to take the benefit of or to enforce any security (in whole or in part) or other guarantee or indemnity shall be exercised and enforced by ABH Financial only in such manner and on such terms as the Issuer may require or approve;

2.4.2 any amount received or recovered by ABH Financial (a) as a result of any exercise of any such right or (b) in the dissolution, amalgamation, reconstruction or reorganisation of Alfa-Bank will be held in trust for the Issuer and immediately paid to the Issuer; and

2.4.3 ABH Financial will not exercise any right it may have by reason of the performance of its obligations hereunder to be subrogated to the rights of the

Issuer against Alfa-Bank in respect of amounts paid by ABH Financial under this Deed of Guarantee.

2.5 Avoidance of Payments

ABH Financial shall on demand indemnify the Issuer against any cost, loss, expense or liability sustained or incurred by it as a result of its being required for any reason (including any bankruptcy, insolvency, winding-up, dissolution or similar law of any jurisdiction) to refund all or part of any amount received or recovered by it in respect of any amount payable by Alfa-Bank under the Loan Agreement and shall in any event pay to it on demand the amount as refunded by it. ABH Financial waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of Alfa-Bank, or any right to require a proceeding first against Alfa-Bank, protest or notice with respect to the Loan Agreement and all demands whatsoever.

2.6 Indemnity

As separate, independent and alternative stipulations, ABH Financial unconditionally and irrevocably agrees (a) that any sum that, although expressed to be payable by Alfa-Bank under the Loan Agreement, is for any reason (whether or not now existing and whether or not now known or becoming known to Alfa-Bank, ABH Financial or the Issuer) not recoverable from ABH Financial on the basis of a guarantee, shall nevertheless be recoverable from it as if it were the sole principal debtor and will be paid by it to the Issuer on demand and (b) as a primary obligation to indemnify on demand the Issuer against any loss suffered by it as a result of any sum expressed to be payable by Alfa-Bank under the Loan Agreement not being paid on the date and otherwise in the manner specified in the Loan Agreement or any payment obligation of Alfa-Bank under the Loan Agreement being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Issuer), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant amount. This indemnity constitutes a separate and independent obligation from the other obligations in this Deed of Guarantee, gives rise to a separate and independent cause of action and will apply irrespective of any indulgence granted by the Issuer.

2.7 Acceleration of Guaranteed Obligations

ABH Financial further agrees that (i) for the purposes of the Loan Guarantee, the maturity of the obligations guaranteed by such Loan Guarantee may be accelerated as provided in Clause 11 of the Loan Agreement, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed thereby; *provided, however,* that if a court of competent jurisdiction determines that the Loan was improperly accelerated pursuant to the terms hereof, then the maturity of such obligations may not be accelerated for purposes of such Loan Guarantee, and (ii) in the event of any acceleration of such obligations (whether or not due and payable) such obligations shall forthwith become due and payable by ABH Financial for purposes of such Loan Guarantee.

2.8 Pari Passu

ABH Financial undertakes that its obligations hereunder will constitute direct, unconditional and unsecured obligations of ABH Financial which rank and will at all times rank at least *pari passu* with all other present and future outstanding unsecured and unsubordinated obligations of ABH Financial, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2.9 Compliance with Loan Agreement

ABH Financial hereby acknowledges that pursuant to the terms of the Loan Agreement, Alfa-Bank has agreed to request that ABH Financial comply with certain covenants detailed therein. ABH Financial hereby acknowledges such requests and undertakes that it will comply with such covenants. In addition, ABH Financial hereby acknowledges that pursuant to the terms of the Loan Agreement, Alfa-Bank has agreed that it may be obligated to make further requests of ABH Financial. ABH Financial hereby acknowledges that Alfa-Bank may make such requests and undertakes that it will comply with those provisions of the Loan Agreement in respect of which Alfa-Bank has agreed to make requests of ABH Financial and with all such requests of Alfa-Bank.

3 STAMP DUTIES

ABH Financial shall pay all stamp, documentary, registration and other similar taxes and duties (including any interest and penalties thereon or in connection therewith) payable upon or in connection with the execution and delivery of this Deed of Guarantee and shall indemnify the Issuer against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of the same.

4 WITHHOLDING OR DEDUCTION

All payments by ABH Financial under this Deed of Guarantee will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Cyprus or Russia unless such withholding or deduction is required by law. In such event, ABH Financial will increase the amounts payable (the "**Relevant Amount**") as shall be necessary in order that the net amounts received and retained (net of tax) by the Issuer after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable in the absence of such withholding or deduction provided that, to the extent that a Relevant Amount shall not be paid in full as and when due by ABH Financial, ABH Financial shall continue to remain liable to account to the Issuer for an amount equal to all or the relevant portion, as the case may be, of the Relevant Amount that it failed to pay, until such time as the full amount of such Relevant Amount has been paid by ABH Financial in full.

5 BENEFITS OF DEED GUARANTEE

5.1 Benefit

This Deed of Guarantee shall take effect as a deed and shall enure to the benefit of the Issuer and its (and any subsequent) successors and assigns, each of which shall be entitled severally to enforce this Deed of Guarantee against ABH Financial.

5.2 Assignment

ABH Financial shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder. The Issuer shall be entitled to assign all or any of its rights and benefits hereunder.

6 PARTIAL INVALIDITY

If at any time any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the laws of any other jurisdiction shall in any way be affected or impaired thereby.

7 CURRENCY INDEMNITY

If, under any applicable law and whether pursuant to a judgment being made or registered against ABH Financial or in the liquidation, insolvency or analogous process of ABH Financial or for any other reason, any payment under or in connection with this Deed of Guarantee is made or falls to be satisfied in a currency (the "**other currency**") other than that in which the relevant payment is expressed to be due (the "**required currency**") under this Deed of Guarantee, then, to the extent that the payment (when converted into the required currency at the rate of exchange on the date of payment or, if it is not practicable for the Issuer to purchase the required currency with the other currency on the date of payment, at the rate of exchange as soon thereafter as it is practicable for it to do so or, in the case of a liquidation, insolvency or analogous process, at the rate of exchange on the latest date permitted by applicable law for the determination of liabilities in such liquidation, insolvency or analogous process) actually received by the Issuer falls short of the amount due under the terms of this Deed of Guarantee, ABH Financial undertakes that it shall, to the extent permitted by applicable law, as a separate and independent obligation, indemnify and hold harmless the Issuer against the amount of such shortfall. For the purpose of this Clause 7, "**rate of exchange**" means the rate at which the Issuer is able on the London foreign exchange market on the relevant date to purchase the required currency with the other currency and shall take into account any premium and other reasonable costs of exchange.

8 TERMINATION

8.1.1 In the event that the Issuer fails to make the Advance and transfer the full amount of the Advance to the Borrower pursuant to the Loan Agreement by the Closing Date this Deed of Guarantee shall terminate, subject to Clause 8.1.2.

8.1.2 The termination of this Deed of Guarantee for any reason shall not affect this Clause 8 and Clauses 9 (*Notices*), 10 (*Governing Law and Jurisdiction*) and 13 (*Contracts (Rights of Third Parties) Act 1999*) which shall continue in full force after such termination.

9 NOTICES

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given in writing (in English) by facsimile, by hand or by courier addressed as follows:

9.1.1 if to the Issuer:

Alfa Bond Issuance plc
53 Merrion Square
Dublin 2
Ireland

Telephone: +353 1 6146240
Fax: +353 1 6146250
Attention: The Directors

9.1.2 if to ABH Financial:

ABH Financial Limited
Themistokli Dervi, 5
ELENION BUILDING, 2nd floor
Nicosia P.C. 1066 Cyprus

Telephone: +357 22555800
Fax: +357 22555803
Attention: The Directors

or to such other address or fax number as any party may hereafter specify in writing to the other. Every notice or other communication sent in accordance with this Clause 9 shall be effective upon receipt by the addressee on a business day in the city of the recipient, *provided however*, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the addressee.

10 GOVERNING LAW AND JURISDICTION

10.1 Governing law

This Deed of Guarantee and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

10.2 Jurisdiction

The parties irrevocably agree that any dispute arising out of or in connection with this Deed of Guarantee, including a dispute as to the validity, existence or termination of this Deed of Guarantee or the consequences of its nullity and/or this Clause 10.2 (a "**Dispute**"), shall be resolved:

10.2.1 subject to sub-Clause 10.2.2, by arbitration in London, England, conducted in the English language by three arbitrators (with the claimant(s), irrespective of number, jointly nominating one arbitrator, and the respondent(s), irrespective of number, jointly nominating one arbitrator), in accordance with the rules set down by the LCIA (formerly the London Court of Arbitration) (the "**LCIA Rules**"), which rules are deemed to be incorporated by reference into this Clause 10.2, save that any provision of such LCIA Rules relating to nationality of an arbitrator shall, to that extent, not apply, and Article 5.6, of the LCIA Rules shall be amended to read as follows: "Unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court". Save as provided in sub-Clause 10.2.2, the parties agree to exclude the jurisdiction of the English courts under Sections 45 and 69 of the Arbitration Act 1996; or

10.2.2 at the sole option of the Issuer, by proceedings brought in the courts of England, which courts are to have non-exclusive jurisdiction. If the Issuer is in the position of a respondent and wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 30 days of service on it of the request for arbitration in accordance with sub-Clause 10.2.1.

For the avoidance of doubt, sub-Clause 10.2.2 is for the benefit of the Issuer alone and shall not limit the right of the Issuer to bring proceedings in any other court of competent jurisdiction.

10.3 Appropriate forum

Each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

10.4 Issuer's process agent

The Issuer irrevocably appoints Alfa Capital Holdings (Cyprus) Limited's representative office – Alfa Capital Markets London (the "**Issuer's Agent**"), now of 14th Floor, 1 Angel Court, London EC2R 7HJ, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

10.4.1 service upon the Issuer's Agent shall be deemed valid service upon the Issuer whether or not the process is forwarded to or received by the Issuer;

10.4.2 the Issuer shall inform all other parties to this Deed of Guarantee, in writing, of any change in the address of the Issuer's Agent within 28 days of such change;

10.4.3 if the Issuer's Agent ceases to be able to act as a process agent or to have an address in England, the Issuer irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Deed of Guarantee and to deliver to the other parties to the Deed of Guarantee within 14 days a copy of a written acceptance of appointment by the new process agent; and

10.4.4 nothing in this Deed of Guarantee shall affect the right to serve process in any other manner permitted by law.

10.5 ABH Financial's process agent

ABH Financial irrevocably appoints Alfa Capital Holdings (Cyprus) Limited's representative office – Alfa Capital Markets London ("**ABH Financial's Agent**"), now of 14th Floor, 1 Angel Court, London EC2R 7HJ, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

10.5.1 service upon ABH Financial's Agent shall be deemed valid service upon ABH Financial whether or not the process is forwarded to or received by ABH Financial;

10.5.2 ABH Financial shall inform all other parties to this Deed of Guarantee, in writing, of any change in the address of ABH Financial's Agent within 28 days of such change;

10.5.3 if ABH Financial's Agent ceases to be able to act as a process agent or to have an address in England, ABH Financial irrevocably agrees to appoint a new process agent in England acceptable to the other parties to the Deed of Guarantee and to deliver to the other parties to the Deed of Guarantee within 14 days a copy of a written acceptance of appointment by the new process agent; and

10.5.4 nothing in this Deed of Guarantee shall affect the right to serve process in any other manner permitted by law.

10.6 Waiver of immunity

To the extent ABH Financial may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, ABH Financial irrevocably waives such immunity.

11 LIMITED RECOURSE

ABH Financial hereby agrees that it shall have recourse in respect of any claim against the Issuer only to sums in respect of principal, interest or other amounts (if any), as the case may be, actually received by or for the account of the Issuer from Alfa-Bank (after deduction or withholding of such taxes or duties as may be required to be made by the Issuer by law in respect of such sum or in respect of the Notes and for which the Issuer has not received a corresponding additional payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Issuer in respect thereof) pursuant to the Loan Agreement and/or this Deed of Guarantee, as the case may be) pursuant to the Loan Agreement and/or this Deed of Guarantee, as the case may be (the "**Issuer Assets**"), subject always (1) to the Security Interests (as defined in the Trust Deed) and (2) to the fact that any claims of the Managers (as defined in the Subscription Agreement) pursuant to the Subscription Agreement shall rank in priority to any claims of ABH Financial hereunder, and that any such claim by any and all such Managers or ABH Financial shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Issuer Assets after meeting claims secured on them. The Trustee having realised the same, neither ABH Financial nor any person acting on its behalf shall be entitled to take any further steps against the Issuer to recover any further sums and no debt shall be owed by the Issuer to such person in respect of any such further sum. In particular, neither ABH Financial nor any other person acting on its behalf shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer under this Deed of Guarantee, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

ABH Financial shall have no recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of this Deed of Guarantee, except to the extent that any such person acts fraudulently, in bad faith or is negligent in the context of its obligations.

12 COUNTERPARTS

This Deed of Guarantee may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

13 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person who is not a party to this Deed of Guarantee shall have any right to enforce any term of this Deed of Guarantee under the Contracts (Rights of Third Parties) Act 1999 other than the Trustee.

Summary of Provisions Relating to the Notes in Global Form

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes, which will apply to, and in some cases modify, the Conditions of the Notes while the Notes are represented by the Global Notes.

The Global Notes

The Regulation S Notes will be evidenced on issue by the Regulation S Global Note registered in the name of a nominee and deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S, and that, prior to the expiration of the 40-day distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such beneficial interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Transfer Restrictions*".

The Rule 144A Notes will be evidenced on issue by the Rule 144A Global Note deposited with a custodian, and registered in the name of Cede & Co. as a nominee for, DTC. Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See *"—Book-Entry Procedures for the Global Notes*". By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the agency agreement dated 21 April 2011 (the "**Agency Agreement**") between the Issuer, Alfa Bank, the Principal Paying Agent, the Trustee, the Registrar and the U.S. Paying Agent. See "*Transfer Restrictions*".

Beneficial interests in Global Notes will be subject to certain restrictions on transfer set forth therein and in the Trust Deed and the Agency Agreement, and the Rule 144A Global Note will bear the applicable legend regarding the restrictions set forth under "*Transfer Restrictions*". Beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note only and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB that is also a QP and that such transaction is in accordance with any applicable securities laws of any State of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will

thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of the Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of Definitive Notes. The Notes are not issuable in bearer form.

In addition, the Global Notes will contain a provision, which modifies the Conditions as they apply to the Notes evidenced by the Global Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of the Global Notes shall be made to the person who appears at the relevant time on the register of the Noteholders as holder of the Global Notes against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed on the relevant schedule thereto (such endorsement being prima facie evidence that the payment in question has been made). No person shall however be entitled to receive any payment on the Global Notes falling due after the Exchange Date, unless the exchange of the Global Notes for Definitive Notes is improperly withheld or refused by or on behalf of the Issuer.

Meetings

The holder of the Global Notes and any proxy appointed by it will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of the Noteholders and, in any such meeting, as having one vote in respect of each Note represented by the Global Notes for which it may be exchanged.

Purchase and Cancellation

Cancellation of any Notes evidenced by the Global Notes required by the Conditions to be cancelled following its redemption will be effected by reduction in the principal amount of the Notes in the Register and notation of the Global Notes.

Trustee's Powers

In considering the interests of the Noteholders while the Global Notes are held on behalf of a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Notes; and (b) consider such interests on the basis that such accountholders were the holders of the Notes in respect of which the Global Notes are issued.

Notices

Notwithstanding Condition 14, so long as the Global Notes are held by or on behalf of DTC, Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to the Noteholders represented by the Global Note may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System and such notices shall be deemed to have been given on the day of delivery to the relevant clearing systems.

Record Date

Notwithstanding Condition 7, "**Record Date**" shall mean the Clearing System Business Day before the relevant due date for payment where "**Clearing System Business Day**" means (a) in respect of a Global Note held on behalf of Euroclear or Clearstream, Luxembourg, a day when Euroclear or Clearstream, Luxembourg is open for business; and (b) in respect of a Global Note held on behalf of DTC, a day when DTC is open for business.

Prescription

Claims in respect of principal, interest and other amounts payable in respect of the Global Notes will become void unless they are presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or any other amounts) from the due date for payment in respect thereof.

Redemption at the Option of Noteholders

The option of the Noteholders provided for in Condition 6(D) may be exercised by the holder of the Global Notes giving notice to the Principal Paying Agent within the time limits relating to the deposit of Notes as set out in Condition 6(D), substantially in the form of the Change of Control Put Redemption Notice available from the Principal Paying Agent and stating the principal amount of the Notes in respect of which the option is exercised and at the same time presenting the Global Notes to the Principal Paying Agent for annotation.

Without prejudice to the above provisions, for so long as all of the Notes are represented by the Global Notes and the Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg or by or on behalf of a custodian for DTC, the option of the Noteholders provided for in Condition 6(D) may be exercised by an accountholder giving notice to the Principal Paying Agent in accordance with the standard procedure of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg or DTC, as the case may be, or any common depositary or custodian for it to the Principal Paying Agent by electronic means) and in a form acceptable to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, of the principal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the Global Notes to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which the Global Notes are issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder as if they were themselves the holders of the Notes in such principal amounts.

Exchange for Definitive Notes

Exchange

Subject to receipt by the Issuer of the funds necessary to cover the costs therefor from Alfa Bank, each Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below), in whole but not in part, for the Notes in definitive form if: (a) the relevant Global Note is held by or on behalf of (i) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Note or ceases to be a "clearing agency" registered under the Exchange Act or if at any time it is no longer eligible to act as

such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (ii) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent; or (b) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8, which would not be suffered were the Notes in definitive form, and a certificate to such effect signed by two Directors of the Issuer is delivered to the Trustee. In such case, the Issuer will give a notice to the Registrar or any Transfer Agent and the Noteholders of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant Schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Notes (the "**Exchanged Global Note**") becomes exchangeable for Definitive Notes in accordance with the above paragraphs, transfers of the Notes may not take place between, on the one hand, persons holding Definitive Notes issued in exchange for beneficial interests in the Exchanged Global Note and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the relevant Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legend applicable to transfer pursuant to Rule 144A, as set out under "Transfer Restrictions".

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any

Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar the relevant transfer certificate (in the form provided in the Agency Agreement) and such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither that legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

Euroclear, Clearstream, Luxembourg and DTC

Custodial and depository links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership—Settlement and Transfer of the Notes*".

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions, which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly (i.e. Indirect Participants).

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations, which are Direct Participants in such system.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

However, in the circumstances described under "Exchange for Definitive Notes," DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A). The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with The Bank of New York Mellon, London Branch as common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note will have an ISIN and a CUSIP number and will be deposited with The Bank of New York Mellon, New York Branch, as custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of the Notes evidenced by a Global

Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of the Notes

Subject to the rules and procedures of each applicable clearing system, purchases of the Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note, referred to herein as a **Beneficial Owner**, will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for a Definitive Note.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement, or SDFS, system in same day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in the Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12:00 p.m., New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (a) decrease the amount of the Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class; and (b) increase the amount of the Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of the Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of the Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream,

Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Taxation

The following is a general description of the material Irish, Cypriot, Russian Federation and United States tax considerations relating to the Notes issued. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under such Notes and the consequences of such actions under the tax laws of those countries in light of their particular circumstances. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date. The information and analysis contained within this section are limited to taxation issues and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Ireland

Introduction

The following is a summary of the principal Irish tax consequences for individuals and companies of ownership of the Notes based on the laws and practice of the Irish Revenue Commissioners currently in force in Ireland and may be subject to change. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, such as dealers in securities, trusts etc. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Taxation of Noteholders

Withholding Tax

In general, tax at the standard rate of income tax (currently 20%) is required to be withheld from payments of Irish source interest, which should include interest payable on the Notes. The Issuer will not be obliged to make a withholding or deduction for or on account of Irish income tax from a payment of interest on a Note where:

(a) the Notes are Quoted Eurobonds i.e. securities which are issued by a company (such as the Issuer), which are listed on a recognised stock exchange (such as the Irish, London or Luxembourg Stock Exchanges) and which carry a right to interest; and

(b) the person by or through whom the payment is made is not in Ireland, or if such person is in Ireland, either:

  (i) the Notes are held in a clearing system recognised by the Irish Revenue Commissioners; (DTC, Euroclear and Clearstream, Luxembourg are, amongst others, so recognised); or

  (ii) the Noteholder is not resident in Ireland and has made a declaration to a relevant person (such as a paying agent located in Ireland) in the prescribed form; and

(c) one of the following conditions is satisfied:

  (i) the Noteholder is resident for tax purposes in Ireland; or

(ii) the Noteholder is a pension fund, government body or other person (other than a person described in paragraph (c)(iv) below), who is resident in a relevant territory and who, under the laws of that territory, is exempted from tax that generally applies to profits, income or gains in that territory; or

(iii) the Noteholder is subject, without any reduction computed by reference to the amount of such interest or other distribution, to a tax in a relevant territory which generally applies to profits, income or gains received in that territory, by persons, from sources outside that territory; or

(iv) the Noteholder is not a company which, directly or indirectly, controls the Issuer, is controlled by the Issuer, or is controlled by a third company which also directly or indirectly controls the Issuer, and neither the Noteholder, nor any person connected with the Noteholder, is a person or persons:

   (A) from whom the Issuer has acquired assets;

   (B) to whom the Issuer has made loans or advances; or

   (C) with whom the Issuer has entered into a swap agreement,

where the aggregate value of such assets, loans, advances or swap agreements represents not less than 75% of the assets of the Issuer,

where for these purposes, the term:

"relevant territory" means a member state of the European Union (other than Ireland) or a country with which Ireland has signed a double tax treaty; and

"swap agreement" means any agreement, arrangement or understanding that—

   (I) provides for the exchange, on a fixed or contingent basis, of one or more payments based on the value, rate or amount of one or more interest or other rates, currencies, commodities, securities, instruments of indebtedness, indices, quantitative measures, or other financial or economic interests or property of any kind, or any interest therein or based on the value thereof, and

   (II) transfers to a person who is a party to the agreement, arrangement or understanding or to a person connected with that person, in whole or in part, the financial risk associated with a future change in any such value, rate or amount without also conveying a current or future direct or indirect ownership interest in an asset (including any enterprise or investment pool) or liability that incorporates the financial risk so transferred.

Thus, so long as the Notes continue to be quoted on the London Stock Exchange, are held in DTC, Euroclear and/or Clearstream, Luxembourg, and one of the conditions set out in paragraph (c) above is met, interest on the Notes can be paid by any Paying Agent acting on behalf of the Issuer free of any withholding or deduction for or on account of Irish income tax. If the Notes continue to be quoted but cease to be held in a recognised clearing system, interest on the Notes may be paid without any withholding or deduction for or on account of Irish income tax provided such payment is made through a Paying Agent outside Ireland and one of the conditions set out in paragraph (c) above is met.

Encashment Tax

Irish tax will be required to be withheld at the standard rate of income tax (currently 20%) from interest on any Note, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder. There is an exemption from encashment tax where the beneficial owner of the interest is not resident in Ireland and has made a declaration to this effect in the prescribed form to the encashment agent or bank.

Income Tax, PRSI and Universal Social Charge

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish tax with respect to such interest. Noteholders resident or ordinarily resident in Ireland who are individuals may be liable to pay Irish income tax, social insurance (PRSI) contributions and the universal social charge in respect of interest they receive on the Notes.

Interest paid on the Notes may have an Irish source and therefore may be within the charge to Irish income tax. In the case of Noteholders who are non-resident individuals such Noteholders may also be liable to pay the universal social charge in respect of interest they receive on the Notes.

Ireland operates a self-assessment system in respect of tax and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There are a number of exemptions from Irish income tax available to certain non-residents. Firstly, interest payments made by the Issuer are exempt from income tax so long as the Issuer is a qualifying company for the purposes of section 110 of the TCA, the recipient is not resident in Ireland and is resident in a relevant territory and, the interest is paid out of the assets of the Issuer. Secondly, interest payments made by the Issuer in the ordinary course of its business are exempt from income tax provided the recipient is not resident in Ireland and is a company which is either resident in a relevant territory which imposes a tax that generally applies to interest receivable in that relevant territory by companies from sources outside that relevant territory or, in respect of the interest is exempted from the charge to Irish income tax under the terms of a double tax agreement which is either in force or which will come into force once all ratification procedures have been completed. Thirdly, interest paid by the Issuer free of withholding tax under the quoted Eurobond exemption is exempt from income tax, where the recipient is a person not resident in Ireland and resident in a relevant territory. For these purposes, residence is determined under the terms of the relevant double taxation agreement or in any other case, the law of the country in which the recipient claims to be resident. Interest falling within the above exemptions is also exempt from the universal social charge.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributed, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double tax treaty between Ireland and the country of residence of the recipient.

Interest on the Notes, which does not fall within the above exemptions, is within the charge to income tax, and, in the case of Noteholders who are individuals, is subject to the universal social charge. In the past the Irish Revenue Commissioners have not pursued liability to tax in respect of persons who are not regarded as being resident in Ireland except where such persons have a taxable presence of some sort in Ireland or seek to claim any relief or repayment in respect of Irish tax. However, there can be no assurance that the Irish Revenue Commissioners will apply this treatment in the case of any Noteholder.

Capital Gains Tax

A Noteholder will not be subject to Irish tax on capital gains on a disposal of Notes unless such holder is either resident or ordinarily resident in Ireland or carries on a trade or business in Ireland through a branch or agency in respect of which the Notes were used or held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs, will be levied at 25%. if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland (or, in certain circumstances, if the disponer is domiciled in Ireland irrespective of his residence or that of the donee/successor) on the relevant date or (ii) if the Notes are regarded as property situate in Ireland (i.e. if the Notes are physically located in Ireland or if the register of the Notes is maintained in Ireland)).

Stamp Duty

No stamp duty or similar tax is imposed in Ireland (on the basis of an exemption provided for in Section 85(2)(c) of the Irish Stamp Duties Consolidation Act, 1999 so long as the Issuer is a qualifying company for the purposes of Section 110 of the TCA and the proceeds of the Notes are used in the course of the Issuer's business), on the issue, transfer or redemption of the Notes.

EU Directive on the Taxation of Savings Income

Ireland has implemented the EC Council Directive 2003/48/EC on the taxation of savings income into national law. Accordingly, any Irish paying agent making an interest payment on behalf of the Issuer to an individual or certain residual entities resident in another Member State of the European Union or certain associated and dependent territories of a Member State will have to provide details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address) to the Irish Revenue Commissioners who in turn are obliged to provide such information to the competent authorities of the state or territory of residence of the individual or residual entity concerned.

The Issuer shall be entitled to require Noteholders to provide any information regarding their tax status, identity or residency in order to satisfy the disclosure requirements in Directive 2003/48/EC and Noteholders will be deemed by their subscription for Notes to have authorised the automatic disclosure of such information by the Issuer or any other person to the relevant tax authorities.

Republic of Cyprus

Residency

A natural person is considered to be a tax resident of Cyprus in a tax year when that person is present in Cyprus for a period or periods exceeding in aggregate 183 days in the tax year. For the purpose of the Income Tax Laws, the tax year coincides with the calendar year.

A company is considered to be a tax resident of Cyprus when its management and control is exercised in Cyprus. Mere registration in Cyprus is not decisive. The tax laws of Cyprus do not define management and control. In practice and based on UK common law it is considered that management and control is exercised where the majority of the directors reside, the majority of board meetings are held and the majority of significant decisions are taken.

Taxation base

Taxation in Cyprus depends upon the tax residency status of the taxpayer.

Tax residents of Cyprus are taxed on their worldwide income.

Non tax residents of Cyprus are taxed on income accruing or arising from sources in Cyprus in relation to:

- profits or other benefits from a permanent establishment situated in Cyprus;
- any rents from property situated in Cyprus;
- any amount of consideration for goodwill after deducting any cost of acquisition of such goodwill; and
- the remuneration of public entertainers and the gross income of any theatrical, musical or other group of people that provide public entertainment.

Permanent establishment

The definition of permanent establishment in the Cyprus tax legislation is largely based on the OECD Model Convention and is under section 2 of the Cyprus Income Tax law.

Interest

The Law provides that interest derived from ordinary business activities including interest closely connected with business activities is treated for tax purposes as business profit.

Tax residents receiving interest that is not regarded as business profit are subject to defense contribution at 10% on their worldwide interest income. Interest that is treated for tax purposes as business profit is subject to corporation tax at 10% in the case of companies and income tax in the case of natural persons. Tax credits are available for any foreign withholding taxes suffered irrespective of whether a tax treaty exists. The amount of the credit is limited to the Cypriot tax liability on the income.

Interest derived in Cyprus by non tax residents is not subject to any withholding or other taxes unless received by a Cyprus permanent establishment and considered to be business profit in which case it will be subject to 10% corporation tax.

Capital Gains Tax

Foreign source capital gains are exempt from Cypriot capital gains tax.

European Union Savings Directive 2003/48/EC

The laws of Cyprus are compliant with the European Union Savings Directive 2003/48/EC.

Stamp Duty

The Stamp Duty Law 1963 provides that every document specified in the first schedule thereto is subject to stamp duty if it relates to any asset situated in Cyprus or to matters or things to be done or performed in Cyprus irrespective of the place where such document is created. Stamp duty should be paid within 30 days from the execution of the document, unless the document is executed outside Cyprus in which case the payment of stamp duty is deferred until such document is brought into Cyprus. On bringing the document into Cyprus, the document is deemed for the purposes of payment of stamp duty to have been executed on receipt of the document in Cyprus.

All documents to be executed by ABH Financial shall be executed by its duly authorised representative(s) outside Cyprus and therefore the payment of stamp duty (if any) would be deferred until such documents would be brought into Cyprus. ABH Financial is of the opinion that due to the fact that the transaction documents are governed by English law and relate to a transaction which will take place entirely out of Cyprus, that the documents fall outside the ambit of the Stamp Duty Law and therefore that no stamp duty would be payable.

In any event should the Commissioner for Stamp Duty conclude that stamp duty would be payable on the documents, the non payment of stamp duty could affect the admissibility of the documents before a Cypriot court. The parties to the transaction documents have agreed that any dispute in relation to the transaction documents will be settled, apart from certain exceptions, by arbitration in London. Arbitral awards shall be given effect by the courts of Cyprus in accordance with the New York Convention and the laws of Cyprus. Part of the procedure for enforcement of such arbitral awards in Cyprus might involve the submission of the original or a certified true copy of the arbitration agreement (or in absence of the same) the document containing the arbitration clause before a Cypriot court. In such case, a nominal amount of stamp duty may be payable.

Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as taxation of interest payments on the corresponding Loan. The summary is based on the laws of the Russian Federation in effect on the date of this Prospectus (where these laws are subject to changes, which could occur frequently, at short notice and may have retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does it seek to address the availability of double tax treaty to and the eligibility of double tax treaty relief of any Noteholder in respect of income payable on the Notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief.

Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes, which may arise in their own particular circumstances. No representations with respect to the Russian tax consequences relevant to any particular Noteholder are made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance resulting in different interpretations and the inconsistent application thereof by various authorities in practice. Further, the substantive provisions of Russian tax law applicable to securities and financial instruments may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistent application than in jurisdictions with more developed capital markets and taxation systems. In practice, the interpretation of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Furthermore, in the absence of binding precedents court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a "**Non-Resident Noteholder**" means:

- a legal entity or an organisation, in each case not organised under Russian law which holds and disposes of the Notes otherwise than through its permanent establishment in Russia (a "**Non-Resident Noteholder-Legal Entity**"), and

- a Noteholder who is an individual not actually present in Russia for an aggregate period of 183 calendar days or more in a period comprised of 12 consecutive months (a "**Non-Resident Noteholder-Individual**").

Presence in Russia for tax residency purposes is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education purposes. Currently, the Russian Tax Code is generally interpreted by both the tax authorities and taxpayers such that days of

arrival should not be taken into account as opposed to days of departure when calculating the total number of days of presence of an individual in Russia, and we aware of a court case confirming this position. However, there have been several incidents when the Ministry of Finance and the Federal Tax Service suggested a different methodology.

For the purposes of this summary, the term "**Resident Noteholder**" means any Noteholder (including any individual and any legal entity or an organisation) not qualifying as a Non-Resident Noteholder.

For the purposes of this summary, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice, however, the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full calendar year and consequently even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to other articles of the Tax Code dealing with taxation of individuals, a change in the position of the tax authorities or by outcomes of tax controversy through the courts.

Tax residency rules and Russia's taxation rights may be affected by an applicable double tax treaty. The Russian tax treatment of interest payments made by Alfa Bank to the Issuer (or to the Trustee, as the case may be) under the Loan Agreement may affect the Noteholders. See Section "*Taxation of Interest on the Loan*" below.

Taxation of the Notes

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realized by them in connection with the acquisition, ownership and/or disposition of the Notes.

Resident Noteholders should consult their own tax advisers with regards to the effect that the acquisition, holding and/or disposition of the Notes may have on their tax position.

Non-Resident Noteholders

A Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of payments of interest and repayment of principal on the Notes received from the Issuer. A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of any gains or other income realised on redemption, sale or other disposition of the Notes outside of Russia, provided that the proceeds of such redemption, sale or other disposition of the Notes are not received from a source within Russia. However, in absence of a clear definition of what constitutes income from sources within Russia in case of sale of securities, there is a risk that income from disposition of the Notes may be considered as received from Russian sources.

Taxation of Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholders – Legal Entities should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders – Legal Entities.

Disposition of the Notes

In the event that the proceeds from a sale or other disposition of the Notes are received from a source within the Russian Federation, a Non-Resident Noteholder- Legal Entity should not be subject to withholding tax on any gain on the sale or other disposition of the Notes, although there is some residual uncertainty regarding the treatment of the portion of the sales proceeds attributable to accrued interest on Notes. The portion of sales proceeds attributable to accrued interest may be distinguished from the total gain and taxed at a rate of 20%, even if the disposal results in a capital loss. Such withholding tax may be reduced or eliminated under the terms of an applicable double tax treaty depending on the residence of the Non-Resident Noteholder – Legal Entity.

Taxation of Non-Resident Noteholders – Individuals

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders—Individuals may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of acquisition of securities. If the acquisition price of the Notes is below the lower margin of the fair market value calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may be subject to the Russian personal income tax at the rate of 30% (arguably is subject to reduction or elimination under the applicable double tax treaty).

Under the Russian tax legislation, taxation of income of Non-Resident Noteholders—Individuals will depend on whether this income would be qualified as received from Russian or non-Russian sources. Although the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, the tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased "in Russia". In the absence of any additional guidance as to what should be considered as a purchase of securities "in Russia", the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of acquisition transaction, the location of the Issuer, or other similar criteria.

Disposition of the Notes

Subject to any available tax treaty relief, if the receipt of any proceeds from disposition of the Notes by a Non-Resident Noteholder – Individual is classified as income from Russian sources for Russian personal income tax purposes, these proceeds will be subject to Russian personal income tax at the rate of 30%. The tax will apply to the gross amount of sales proceeds received upon disposition of the Notes decreased by the amount of any available cost deductions (including the original purchase value of the Notes). There is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the tax authorities, the deduction will be disallowed and the tax will apply to the gross amount of sales proceeds.

In certain circumstances if the disposal proceeds are paid to Non-Resident Noteholder – Individual by a licensed broker or an asset manager that is a Russian legal entity, or an organisation, or any other person (including a foreign company with an economically autonomous subdivision in Russia and an individual entrepreneur located in Russia), who carries out operations under an asset management agreement, a brokerage service agreement. an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the Non-Resident Noteholder — Individual, the applicable personal income tax at the rate of 30% should be withheld at source by such person who will be considered as the tax agent. The amount of tax withheld will be calculated after taking into account

documented deductions for the original purchase cost and related expenses on the purchase, holding and sale of Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder – Individual. Where a sale is made to other legal entities, organisations or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder – Individual would be required to file a tax return individually, report on the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of acquisition expenses, confirmed by the supporting documentation. The applicable tax will then have to be paid by the Non-Resident Noteholder – Individual on the basis of the filed tax return. Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder— Individual as a result of disposition of the Notes and other securities occurring within the same year may be aggregated which would affect the total amount of tax payable by a Non-Resident Noteholder— Individual in Russia.

There is a risk that any gain derived by a Non-Resident Noteholder—Individual from the disposition of the Notes may be affected by changes in the exchange rate between the currency of acquisition of the Notes, the currency of disposition of the Notes and roubles. There is also some uncertainty regarding tax treatment of the portion of the sales proceeds derived by a Non-Resident Noteholder—Individual from Russian sources in connection with disposition of the Notes that is attributable to accrued interest income on the Notes. The tax authorities could argue that the portion of sales proceeds attributable to interest income, provided that these sales proceeds are derived from Russian sources, should be subject to Russian personal income tax at the rate of 30%, even if the disposition of the Notes results in a capital loss. This rate however could be reduced or eliminated under provisions of an applicable double tax treaty relating to interest.

Non-Resident Noteholders—Individuals should consult their own tax advisors with respect to tax consequences arising in connection with the disposition of the Notes, including the receipt of sales proceeds from a source within Russia upon the disposition of the Notes.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow to reduce or eliminate Russian income tax due with respect to income received by Non-Resident Noteholders from Russian sources, including income relating to disposition of the Notes (if this income is treated as income from Russian sources). In order to obtain the benefit available under the respective double tax treaty, a Non-Resident Noteholder must comply with the certification, information, and reporting requirements being in force in Russia (relating, in particular, to confirmation of the entitlement and eligibility to treaty benefits).

Currently, a Non-Resident Noteholder – Legal Entity will need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. However, the payer of income in practice may request additional documents confirming the eligibility of the Non-Resident Noteholder-Legal Entity to the benefits of the double tax treaty. The certificate should confirm that the respective Non-Resident Noteholder— Legal Entity is the tax resident of the relevant double tax treaty country in a particular calendar year during which the income is paid. This certificate should be apostilled or legalized and needs to be renewed on an annual basis. A notarized Russian translation of the certificate may be required. There can be no assurance however that advance treaty relief will be available in practice.

Under Russian domestic tax legislation in order to enjoy benefits of the respective double tax treaty a Non-Resident Noteholder—Individual must provide the Russian tax authorities with a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a

confirmation from the relevant foreign tax authorities of income received and the tax paid outside Russia in relation to income with respect to which treaty benefits are claimed. Such requirements may be imposed even if they directly contradict provisions of the applicable double tax treaty. Technically, these requirements mean that a Non-Resident Noteholder—Individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain the advance treaty relief in relation to income derived from Russian sources, as it is unlikely that the supporting documentation required for the treaty relief can be provided to the Russian tax authorities and, consequently, approval from the latter could be obtained, before the receipt of income by a Non-Resident Noteholder—Individual occurs.

Refund of Tax Withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder—Legal Entity was withheld at source, despite the right of such Non-Resident Noteholder—Legal Entity to rely on benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced rate in relation to such income, a claim for a refund of the tax that was excessively withheld at source can be filed with the Russian tax authorities within three years following the tax period in which the tax was withheld.

If Russian personal income tax on income derived from Russian sources by a Non-Resident Noteholder—Individual was withheld at source despite the right of this Non-Resident Noteholder—Individual to rely on benefits of the applicable double tax treaty allowing such individual not to pay the tax in Russia or allowing to pay the tax at a reduced rate in relation to such income, a claim for a refund of tax which was excessively withheld can be filed with the Russian tax authorities within one year following the year in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming a right of a Non-Resident Noteholder to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Tax Code.

Obtaining a refund of Russian taxes that were excessively withheld at source is likely to be a time consuming process requiring many efforts and no assurance can be given that such refund will be granted in practice.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled in order to obtain treaty relief in practice with respect to any Russian taxes imposed on income received by a Non-Resident Noteholder upon the acquisition, holding and disposition of the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds made by a Russian entity to a non-resident legal entity or organisation having no registered presence and/or permanent establishment in Russia are subject to Russian withholding tax at the rate of 20%, which could be reduced or eliminated under the terms of an applicable double tax treaty. Alfa Bank believes that payments of interest to the Issuer on the Loan should not be subject to Russian withholding tax under the terms of the Russia-Ireland double tax treaty. However, there can be no assurance that this tax relief will be available in practice and/or that such relief will continue to be available during the term of the Loan, particularly, if the legislative changes to the anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdictions are introduced to the Russian Tax Code (see "Risk Factors—Risks Relating to Russia and the CIS— Russian tax law and practice are not fully developed and are subject to frequent changes").

If interest under the Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Russia-Ireland double tax treaty will cease and payments of interest will become subject to the Russian withholding tax at the rate of 20% or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a Russian withholding tax exemption or reduction under the applicable double tax treaty with Russia under such circumstances. In such cases, the Noteholders may seek the reduction or elimination of Russian withholding tax or a refund of the tax under applicable double taxation treaties entered into between their countries of residence and Russia. There is no assurance however that the respective treaty relief will be available to them in practice under these circumstances.

If payments under the Loan are subject to Russian withholding tax (as a result of which the Issuer will be required to reduce payments made by it under the Notes by the amount of such withholding tax), Alfa bank will be obliged (subject to certain conditions) to increase payments made by it under the Loan as may be necessary so that the net payments received by the Issuer and the Noteholders will be equal to the amounts they would have received in absence of such withholding. It is currently unclear whether the provisions obliging Alfa Bank to gross-up interest payments payable under the Loan will be enforceable under Russian law. There is a risk that gross up for Russian withholding tax will not take place and that interest payments made by Alfa Bank under the Loan will be reduced by the amount of the Russian income tax withheld by it at the rate of 20%, or such other rate as may be in force at the time of payment.

If Alfa Bank is obliged to increase payments payable under the Loan, it may (without premium or penalty), subject to certain conditions, prepay the Loan in full. In such case, all outstanding Notes will be redeemable or repayable at par together with accrued and unpaid interest and additional amounts, if any, to the date of repayment.

No VAT will be payable in Russia in respect of interest and principal payments under the Loan.

Certain United States Federal Tax Considerations

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof that purchases Notes at their "issue price", which will equal the first price to the public (not including bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of Notes is sold for cash. This summary only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax-exempt organisations, dealers or traders in securities or currencies, or to holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar. Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price.

This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing is subject to change, possibly with retroactive effect, or differing interpretations, which could affect the tax consequences, described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation (or other entity treated as such for U.S. federal income tax purposes) organised in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

A Non-U.S. Holder is a beneficial owner of Notes that is neither a U.S. Holder nor a partnership (or any other transparent entity for U.S. federal income tax purposes). Special rules may apply to certain Non-U.S. Holders such as "controlled foreign corporations" and "passive foreign investment companies". Such entities should consult their own tax advisors to determine the tax consequences that may be relevant to them or their shareholders.

If a partnership (or any other transparent entity for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor to determine the U.S. federal, state, local and other tax consequences involved in the acquisition, ownership, disposition and retirement of the Notes.

Internal Revenue Service Circular 230 Disclosure

Under the Treasury Department's standards of professional practice, certain tax advice that may be used to support the promotion or marketing of transactions or arrangements must meet requirements as to form and substance. To assure compliance with these standards, we inform you that (i) this communication is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties, (ii) this advice was written to support the promotion or marketing of transactions and matters addressed herein, and (iii) you should seek advice based on your particular circumstances from an independent tax advisor.

You are urged to consult your tax advisor as to the particular consequences to you under U.S. federal, state and local, and any applicable foreign, tax laws of the acquisition, ownership and disposition of the Notes.

Characterisation of the Notes

No authority directly addresses the U.S. federal income tax characterisation of securities like the Notes and the Issuer has not and will not seek a ruling from the U.S. Internal Revenue Service ("**IRS**") as to their characterisation for such purposes. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes and this discussion assumes that treatment is correct. No assurance can be given that the IRS will not assert, or a court would not sustain, a position regarding the characterisation of the Notes that is contrary to this discussion. Alternative characterizations include treatment of the Notes as beneficial ownership of the Loan or as equity in the Issuer, which is a passive foreign investment company ("**PFIC**"). Prospective investors should seek advice from their own tax advisors as to the consequences to them of alternative characterisations of the Notes for U.S. federal income tax purposes.

U.S. Holders

Interest

Except as set forth below, interest paid on a Note, including any additional amounts in respect of interest, will be includable in a U.S. Holder's gross income as ordinary interest income in accordance

with the U.S. Holder's method of accounting for tax purposes. In addition, interest on the Notes will be treated as foreign source income for U.S. federal income tax purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to "passive income" and "general category income". Interest paid on the Notes should generally constitute passive category income. If interest paid on the Notes is subject to any foreign withholding taxes, a U.S. Holder may be able to claim a foreign tax credit for such taxes, subject to applicable limitations. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Substitution of the Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes. U.S. Holders should consult their tax advisers concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Fungible Issue

The Issuer may, without the consent of the holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with an original issue discount ("**OID**") even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Sale, Exchange, Retirement or Redemption

A U.S. Holder generally will recognise gain or loss on the sale, retirement or redemption of a Note equal to the difference between the amount realised on the sale or retirement (less any accrued but unpaid interest, which will be taxable as such) and the tax basis of the Note. A U.S. Holder's tax basis in a Note generally will be its U.S. dollar cost. Gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss.

Recently Enacted Legislation

Recently enacted legislation may require certain U.S. Holders who are individuals, estates or trusts to pay up to an additional 3.8% tax on, among other things, interest and capital gains for taxable years beginning after December 31, 2012.

Recently enacted legislation generally may also require certain U.S. Holders to report information with respect to an investment in Notes not held through an account with a U.S. financial institution to the U.S. Internal Revenue Service. If a U.S. Holder fails to report information required under this legislation, the U.S. Holder could become subject to substantial penalties. U.S. Holders are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on an investment in Notes.

Non-U.S. Holders

Under U.S. federal income tax law currently in effect, subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," payments of interest on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder's trade or business in the United States.

Subject to the discussion below under the caption "U.S. Backup Withholding Tax and Information Reporting," any gain realised by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder's trade or business in the United States or (ii) in the case of any gain realised by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain noncorporate holders of Notes that are United States persons. Information reporting generally will apply to payments of principal of, and interest on, an obligation, and to proceeds from the sale or redemption of, an obligation made within the U.S. to a holder (other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax on payments made within the United States on a Note to a holder of a Note that is a United States person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is currently 28% through 2012.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

Subscription and Sale

The Joint Lead Managers, have, pursuant to the Subscription Agreement and the Subscription Side Letter, as applicable, upon the terms and subject to the conditions therein, jointly and severally, agreed to subscribe and pay for the Notes at the issue price of 100% of their principal amount.

The Joint Lead Managers are entitled to certain commissions and reimbursement of certain expenses from the Issuer. The Issuer is required to be put in funds in respect of such commissions and expenses of the Joint Lead Managers by Alfa Bank. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement and the Subscription Side Letter, as applicable, prior to the closing of the issue of the Notes.

Selling Restrictions

United States

No Registration under the Securities Act

None of the Notes, the Loan and the ABH Financial Guarantee have been, nor will they be, registered under the Securities Act, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Joint Lead Managers Compliance with United States Securities Law

Each Joint Lead Manager has severally represented, warranted and agreed to the Issuer and Alfa Bank that it has offered and sold the Notes, and will offer and sell the Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**"), only to non-U.S. persons outside the United States in accordance with Rule 903 of Regulation S or in accordance with Rule 144A to persons who are both QIBs and QPs.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A. During the distribution compliance period, each Joint Lead Manager will send to each dealer to which it sells the Notes (other than sales pursuant to Rule 144A) a confirmation setting forth the restrictions on offers and sales of the Notes outside the United States or to, or for the account or benefit of U.S. persons.

Each Joint Lead Manager may, directly or through its respective U.S. registered broker-dealer affiliates only, arrange for the offer and resale of the Notes and the ABH Financial Guarantee in the United States to QIBs that are QPs in accordance with Rule 144A.

United Kingdom

Each Joint Lead Manager has severally represented, warranted and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of FSMA does not apply to the Issuer or Alfa Bank; and

(ii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russia

Each Joint Lead Manager has severally represented, warranted and agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ireland

Each Joint Lead Manager agreed that:

(i) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3), including, without limitation, Regulations 7 and 152 thereof or any codes of conduct used in connection therewith and the provisions of the Investor Compensation Act 1998;

(ii) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Central Bank Acts 1942 - 2010 and any codes of conduct rules made under Section 117(1) of the Central Bank Act 1989;

(iii) it will not underwrite the issue of, or place, or do anything in Ireland in respect of the Notes otherwise than in conformity with the provisions of the Prospectus Regulations and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the CBI; and

(iv) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 by the CBI.

Republic of Cyprus

Each Joint Lead Manager has severally represented, warranted and agreed that this Prospectus is not an offer to the public in the Republic of Cyprus and no action has been taken to permit an offer of the Notes in the Republic of Cyprus and this Prospectus is not a prospectus for the purpose of and does not fall within the provisions of the Cyprus Prospectus Law, N.114(I)/2005.

Transfer Restrictions

Rule 144A Notes

Each purchaser of the Notes that is a U.S. Person (or is purchasing for the account or benefit of a U.S. person) or within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged that:

(i) It is (a) a QIB (as defined under Rule 144A of the Securities Act) that is also a QP (as defined in Section 2(a)(51)(A) of the Investment Company Act); (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (c) not a participant-directed employee plan, such as a 401(k) plan; (d) acting for its own account, or for the account of another QIB that is also a QP; (e) not formed for the purpose of investing in the Rule 144A Notes or the Issuer; and (f) aware, and each beneficial owner of such Notes has been advised, that the sale of such Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

(ii) It will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.$200,000; and (b) provide notice of the transfer restrictions set forth herein to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book-entry depositaries.

(iii) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP; or (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, and in each case in accordance with any applicable securities laws of any state of the United States.

(iv) It understands that the Issuer has not been and does not intend to become registered as an investment company under the Investment Company Act. It understands that the Issuer has the power under the Trust Deed to compel any U.S. person or any person within the United States who is required to be a QP but is not a QP at the time it acquires the Rule 144A Notes or a beneficial interest therein to transfer its Rule 144A Notes or such beneficial interest immediately to (a) a non-U.S. person in an offshore transaction pursuant to Regulation S under the U.S. Securities Act; or (b) to a person (i) that is within the United States or that is a U.S. person; and (ii) who is a QP and makes certain representations. Pending such transfer, the Issuer is authorised to suspend the exercise of any special rights, any rights to receive notice of, or attend, a Noteholders' meeting of the Issuer and any rights to receive distributions with respect to the Rule 144A Notes. If the obligation to transfer is not met, the Issuer is irrevocably authorised to transfer the interest in the Rule 144A Notes to (a) a non-U.S. person in an offshore transaction pursuant to Regulation S; or (b) a person that is in the United States or a U.S. person and who is a QP.

(v) It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE, THE LOAN AND THE GUARANTEE IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER (A "**QP**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.$200,000 PRINCIPAL AMOUNT OF THE NOTES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**") IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFERS IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT - DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE NOTES REPRESENTED HEREBY; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS THIS NOTE, WILL HOLD AND TRANSFER AT LEAST U.S.$200,000 IN PRINCIPAL AMOUNT OF THE NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK - ENTRY DEPOSITARIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A QIB AND A QP AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THE NOTES REPRESENTED HEREBY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES

ACT OR (II) A NON-U.S. PERSON PURCHASING THIS NOTE IN AN OFFSHORE TRANSACTION PURSUANT TO REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE NOTES REPRESENTED HEREBY TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE NOTES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN THAT AT THE TIME OF SUCH PURCHASE AND THROUGHOUT THE PERIOD IT HOLDS SUCH NOTES OR SUCH INTEREST (1) EITHER (A) IT IS NOT, AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST THEREIN) WILL NOT BE, OR BE ACTING ON BEHALF OF), AN EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**")) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A PLAN AS DEFINED IN SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), INCLUDING AN INDIVIDUAL RETIREMENT ACCOUNT OR OTHER ARRANGEMENT THAT IS SUBJECT TO SECTION 4975 OF THE CODE, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF INVESTMENT BY SUCH AN EMPLOYEE BENEFIT PLAN OR PLAN PURSUANT TO THE U.S. DEPARTMENT OF LABOR REGULATION SECTION 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA (EACH, A "**BENEFIT PLAN INVESTOR**") OR A GOVERNMENTAL, CHURCH, NON U.S. OR OTHER PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE, LOCAL, NON U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SUBSTANTIALLY SIMILAR TO THE FIDUCIARY RESPONSIBILITY AND/OR THE PROHIBITED TRANSACTION PROVISIONS OF ERISA AND/OR SECTION 4975 OF THE CODE ("**SIMILAR LAWS**") AND/OR LAWS OR REGULATIONS THAT PROVIDE THAT THE ASSETS OF THE ISSUER COULD BE DEEMED TO INCLUDE "PLAN ASSETS" OF SUCH PLAN (EACH, AN "**OTHER PLAN INVESTOR**"), AND NO PART OF THE ASSETS USED BY IT TO PURCHASE OR HOLD THIS NOTE OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR OTHER PLAN INVESTOR OR (B) IT IS, OR IS ACTING ON BEHALF OF, AN OTHER PLAN INVESTOR, AND SUCH ACQUISITION AND/OR HOLDING OF THIS NOTE DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH OTHER PLAN INVESTOR SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH OTHER PLAN INVESTOR; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THESE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF THIS NOTE. NO ACQUISITION BY OR TRANSFER TO A BENEFIT PLAN INVESTOR, OR AN OTHER PLAN INVESTOR IN CONTRAVENTION OF CLAUSE (1)(B), OF THIS NOTE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER

DETERMINES THAT THIS NOTE IS HELD BY A BENEFIT PLAN INVESTOR, OR AN OTHER PLAN INVESTOR IN CONTRAVENTION OF CLAUSE (1)(B), THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE TRUST DEED.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.

(vi) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that at the time of purchase and throughout the period it holds such Notes or any interest therein (a) either (i) it is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be, or be acting on behalf of), an employee benefit plan (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) subject to the provisions of Part 4 of Subtitle B of Title I of ERISA, a plan as defined in Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), including an individual retirement account or other arrangement that is subject to Section 4975 of the Code, or any entity whose underlying assets include "plan assets" by reason of investment by such an employee benefit plan or plan pursuant to the Plan Assets Regulation (as defined below) (each, a "**Benefit Plan Investor**") or a governmental, church, non U.S. or other plan which is subject to any federal, state, local, non U.S. or other laws or regulations that are substantially similar to the fiduciary responsibility and/or the prohibited transaction provisions of ERISA and/or Section 4975 of the Code ("**Similar Laws**") and/or laws or regulations that provide that the assets of the Issuer could be deemed to include "plan assets" of such plan (each, an "**Other Plan Investor**"), and no part of the assets used by it to purchase or hold such Notes or any interest therein constitutes the assets of any Benefit Plan Investor or Other Plan Investor, or (ii) it is, or is acting on behalf of, an Other Plan Investor, and such purchase and/or holding of such Notes does not and will not result in a non exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such Other Plan Investor solely as a result of the investment in the Issuer by such Other Plan Investor; and (b) it will not sell or otherwise transfer any Note or interest therein to any person without first obtaining these same foregoing representations, warranties and covenants from that person with respect to its acquisition, holding and disposition of such Note. No acquisition by or transfer to a Benefit Plan Investor, or an Other Plan Investor in contravention of clause (a)(ii), of such Note, or any interest therein, will be effective, and neither the Issuer nor the Trustee will recognise any such acquisition or transfer. In the event that the Issuer determines that such Note is held by a Benefit Plan Investor, or an Other Plan Investor in contravention of clause (a)(ii), the Issuer may cause a sale or transfer in the manner described in the Trust Deed.

(vii) It is not purchasing the Notes with a view to, or for offer or sale in connection with, any distribution thereof (within the meaning of the Securities Act) that would be in violation of the securities laws of the United States or any state thereof.

(viii) It became aware of the offering of the Notes by the Issuer and the Notes were offered to the purchaser (a) solely by means of the Prospectus; (b) by direct contact between the purchaser and the Issuer; or (c) by direct contact between the purchaser and one or more Joint Lead Managers. The Investor did not become aware of, nor were the Notes offered to the purchaser by any other means, including, in each case, by any form of general

solicitation or general advertising. In making the decision to purchase the Notes, the purchaser relied solely on the information set forth in the Prospectus.

(ix) It has received, carefully read and understands this document, and has not, directly or indirectly distributed, forwarded, transferred or otherwise transmitted this document or any other presentation or offering materials concerning the Notes to any persons within the United States or to any US Persons, nor will it do any of the foregoing.

(x) It acknowledges that the Issuer, Alfa Bank, ABH Financial, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations and agreements deemed to have been made by it by its purchase of the Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, Alfa Bank, ABH Financial and the applicable Joint Lead Manager(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(xi) It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of the Regulation S Notes that is a non-U.S. person outside the United States and each subsequent purchaser of the Regulation S Notes (a) in the case of (i) and (ii) below, prior to the expiration of the distribution compliance period (as such term is defined in Regulation S); and (b) in the case of (iii), (iv), (v), (vi) and (vii) below, throughout the period that it holds such Notes, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

It is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and it is not an affiliate of the Issuer, Alfa Bank, ABH Financial or a person acting on behalf of the Issuer, Alfa Bank, ABH Financial or such an affiliate.

(i) It understands that prior to the expiration of the distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A in an amount not less than U.S.$200,000 to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP, each of which is purchasing not less than U.S.$200,000 principal amount of the Notes or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state of the United States.

(ii) It understands that the Regulation S Notes will be represented by the Regulation S Global Note.

(iii) Before any interest in the Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with the Securities Act, the Investment Company Act and any other applicable securities laws.

(iv) It is, or at the time the Regulation S Notes are purchased it will be, the beneficial owner of such Regulation S Notes.

(v) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, US Persons, absent registration or an exemption from registration under the Securities Act.

(vi) It is aware that the Issuer has not registered under the Investment Company Act and that the Issuer has put in place restrictions for transactions not involving any public offering in the United States, and to ensure that the Issuer is not and will not be required to register under the Investment Company Act.

(vii) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that at the time of purchase and throughout the period it holds such Notes or any interest therein (a) either (i) it is not, and is not acting on behalf of (and for so long as it holds such Notes (or any interest therein) will not be, or be acting on behalf of), a Benefit Plan Investor or a governmental, church or non U.S. plan which is subject to any Similar Laws and/or laws or regulations that provide that the assets of the Issuer could be deemed to include "plan assets" of such plan under the Plan Assets Regulation (as defined below) or otherwise, and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of any Benefit Plan Investor or such a governmental, church or non U.S. plan, or (ii) it is, or is acting on behalf of, a governmental, church or non U.S. plan, and such purchase and/or holding of such Note does not and will not result in a non exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan; and (b) it will not sell or otherwise transfer any Note or interest therein to any person without first obtaining these same foregoing representations, warranties and covenants from that person with respect to its acquisition, holding and disposition of such Note. No acquisition by or transfer to a Benefit Plan Investor of such Note, or any interest therein, will be effective, and neither the Issuer nor the Trustee will recognise any such acquisition or transfer. In the event that the Issuer determines that such Note is held by a Benefit Plan Investor, the Issuer may cause a sale or transfer in the manner described in the Trust Deed.

(viii) If in the future it decides to offer, sell, transfer, assign or otherwise dispose of the Notes, it will do so only in compliance with an exemption from the registration requirements of the Securities Act and under circumstances, which will not require the Issuer to register under the Investment Company Act. It acknowledges that any sale, transfer, assignment, pledge or other disposal made other than in compliance with such laws and the above-state restrictions will be subject to the forfeiture and/or compulsory transfer provisions in the manner described in the Trust Deed.

(ix) It has received, carefully read and understands this document, and has not, directly or indirectly distributed, forwarded, transferred or otherwise transmitted this document or

any other presentation or offering materials concerning the Notes to any persons within the United States or to any US Persons, nor will it do any of the foregoing.

(x) It acknowledges that the Issuer, Alfa Bank, ABH Financial and the Joint Lead Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, Alfa Bank, ABH Financial and the applicable Joint Lead Manager(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

Certain ERISA Considerations

ERISA imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively "**ERISA Plans**"), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor "plan assets" regulation, 29 CFR Section 2510.3-101, as modified by Section 3(42) of ERISA (the "**Plan Assets Regulation**") and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, an extension of credit between a Plan and a "party in interest" or "disqualified person" may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code.

The Issuer, directly or through affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which the Issuer or the Trustee or any of their respective affiliates is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made.

Under a "look-through rule" set forth in the Plan Assets Regulation, if a Plan invests in an "equity interest" of an entity and no exception applies, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets. This rule will only apply where equity participation in an entity by Benefit Plan Investors is "significant". Equity participation by Benefit Plan Investors is significant if 25% or more of the value of any class of equity interest in the entity is held by Benefit Plan Investors. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. Where the value of an interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the Loan and the ABH Financial Guarantee, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Loan and the ABH Financial Guarantee. Further, neither the Trustee nor the Issuer will be able to monitor the Noteholders' possible status as Benefit Plan Investors. Accordingly, the Trustee and Issuer will use commercially reasonable efforts to limit ownership by Benefit Plan Investors. However, no assurance can be given that equity participation by Benefit Plan Investors will not be "significant" for purposes of the Plan Assets Regulation.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL REPRESENT OR BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) EITHER (A) IT IS NOT, AND IS NOT

ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS SUCH NOTE (OR ANY INTEREST THEREIN) WILL NOT BE, OR BE ACTING ON BEHALF OF), A BENEFIT PLAN INVESTOR OR AN OTHER PLAN INVESTOR, AND NO PART OF THE ASSETS USED BY IT TO PURCHASE OR HOLD SUCH NOTE OR ANY INTEREST THEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR OR OTHER PLAN INVESTOR, OR (B) IT IS, OR IS ACTING ON BEHALF OF AN OTHER PLAN INVESTOR, AND SUCH PURCHASE AND/OR HOLDING OF SUCH NOTE DOES NOT AND WILL NOT RESULT IN A NON EXEMPT VIOLATION OF ANY SIMILAR LAWS, AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH OTHER PLAN INVESTOR SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH OTHER PLAN INVESTOR; AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THESE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON WITH RESPECT TO ITS ACQUISITION, HOLDING AND DISPOSITION OF SUCH NOTE. NO ACQUISITION BY OR TRANSFER TO A BENEFIT PLAN INVESTOR, OR AN OTHER PLAN INVESTOR IN CONTRAVENTION OF CLAUSE (1)(B), OF SUCH NOTE, OR ANY INTEREST THEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT SUCH NOTE IS HELD BY A BENEFIT PLAN INVESTOR, OR AN OTHER PLAN INVESTOR IN CONTRAVENTION OF CLAUSE (1)(B), THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE TRUST DEED.

General Information

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code for the Regulation S Notes is 062069520. The International Securities Identification Number ("**ISIN**") for the Regulation S Notes is XS 0620695204. The CUSIP number of the Rule 144A Notes is 01538R AB5 and the ISIN of the Rule 144A Notes is US01538RAB50. The Common Code for the Rule 144A Notes is 062107111.

It is expected that listing of the Notes and admission of the Notes to trading on the London Stock Exchange's regulated market for listed securities will be granted on or before 28 April 2011, subject only to the issue of the Global Notes. Prior to official listing and admission to trading, however, the London Stock Exchange will permit dealings in accordance with its guidelines. Transactions will normally be effected for delivery on the third working day after the day of the transaction. It is expected that the listing of the Notes to the Official List and trading on the Regulated Market will take place on or about 28 April 2011, subject to the issuance of the Global Notes.

No consents, approvals, authorisations or order of any regulatory authorities are required by the Issuer under the laws of Ireland for the issue of the Notes and the making of the Loan.

Alfa Bank and ABH Financial have obtained all necessary consents, approvals and authorisations in Russia and the Republic of Cyprus in connection with the drawdown of the Loan and the giving of the ABH Financial Guarantee. Provision of the ABH Financial Guarantee was authorised by resolutions of the Board of Directors of ABH Financial on 20 April 2011.

The Issuer has obtained all necessary consents, approvals and authorisations in Ireland in connection with the issuance of the Notes and the making of the Loan. The issuance of the Notes and making of the Loan was authorised by resolutions of the Board of Directors of the Issuer on 20 April 2011.

Except as disclosed in "Recent Developments" on page 100, there has been no significant change in the financial or trading position of ABH Financial or the Alfa Banking Group since 31 December 2010.

There has been no material adverse change in the prospects of ABH Financial or the Alfa Banking Group since 31 December 2010.

Except as disclosed in "Recent Developments" on page 100, there has been no significant change in the financial or trading position of Alfa Bank since 31 December 2010.

There has been no material adverse change in the prospects of Alfa Bank since 31 December 2010.

There has been no significant change in the financial or trading position of the Issuer since 31 December 2010 and no material adverse change in the financial position or prospects of the Issuer since 31 December 2010. The Issuer has no subsidiaries.

Where information in this Prospectus has been sourced from third parties this information has been accurately reproduced and as far as each of the Issuer, Alfa Bank and ABH Financial are aware and are able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

The Issuer is not, and during the 12 months preceding the date of this Prospectus has not been, involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the Issuer's financial position or profitability, nor is the Issuer aware that any such proceedings are pending or threatened.

Other than as set out under "Description of the Alfa Banking Group – Litigation" on page 126, neither Alfa Bank nor ABH Financial is, or during the 12 months preceding the date of this Prospectus has been, involved in any governmental, legal or arbitration proceedings that may have, or have had in the recent past, a significant effect on the financial position or profitability of Alfa Bank, ABH Financial or the Alfa Banking Group nor is Alfa Bank or ABH Financial aware that any such proceedings are pending or threatened.

None of the Issuer, the Borrower or the Guarantor has entered into any material contracts outside the ordinary course of its business, which could result in it being under an obligation or entitlement that is material to its ability to make payments under the Notes.

Until the maturity date or earlier repayment of the Notes, copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at and are available in physical form from the offices of the Principal Paying Agent in London at One Canada Square, London, E14 5AL during usual business hours on any business day (Saturdays, Sundays and public holidays excepted):

(i) the memorandum and articles of association of the Issuer;

(ii) the charter of each of Alfa Bank and ABH Financial;

(iii) the consolidated financial statements of ABH Financial Limited for the years ended 31 December 2010, 2009 and 2008 prepared in accordance with IFRS;

(iv) the financial statements of the Issuer as at and for the years ended 31 December 2010 and 2009 prepared in accordance with IFRS;

(v) the Trust Deed to constitute the Notes (including the form of Global Notes and the Definitive Notes);

(vi) the Loan Agreement;

(vii) the ABH Financial Deed of Guarantee; and

(viii) the Agency Agreement.

The Trust Deed provides, amongst other things, that the Trustee may act or rely upon the opinion or advice of, or upon a certificate or other information from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding the fact that such opinion, advice, certificate or other information contains a monetary or other limit on the liability of any such persons in respect thereof.

Save for the fees payable to the Joint Lead Managers, the Trustee, the Principal Paying Agent and the Registrar, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

The total expenses related to the admission to trading are £4,200.

Once approved, the Prospectus will be published on the Regulatory News Service of the London Stock Exchange.

Interest and principal on the Loan will be paid into an account operated by the Principal Paying Agent for the benefit of the Issuer.

The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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ABH FINANCIAL LIMITED

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2010

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Independent Auditor's Report

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

1 We have audited the accompanying consolidated financial statements of ABH Financial Limited and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

6 April 2011
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit, White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
Telephone +7 (495) 967 6000, Fax +7 (495) 967 6001, www.pwc.ru

In millions of US Dollars	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	3 182	1 966
Mandatory cash balances with central banks		189	150
Trading securities	8	1 426	1 372
Repurchase receivables relating to trading securities	8	914	-
Due from other banks	9	2 754	2 270
Loans and advances to customers	10	16 795	13 449
Investments	11	2 108	1 508
Other financial assets	12	474	251
Other assets	13	287	277
Premises and equipment	14	304	366
Deferred tax asset	29	45	37
TOTAL ASSETS		**28 478**	**21 646**
LIABILITIES			
Due to other banks	15	2 097	1 108
Customer accounts	16	16 812	13 686
Debt securities issued	17	4 107	1 565
Syndicated and other debt	18	190	295
Subordinated debt	19	1 395	1 747
Other financial liabilities	20	332	322
Other liabilities	21	327	123
Deferred tax liability	29	139	102
TOTAL LIABILITIES		**25 399**	**18 948**
EQUITY			
Share capital	22	1 265	1 265
Fair value reserve for investments available for sale		55	54
Revaluation reserve for premises and equipment		30	33
Cumulative translation reserve		(331)	(304)
Retained earnings		2 060	1 647
Net assets attributable to the Company's owners		**3 079**	**2 695**
Non-controlling interest		**-**	**3**
TOTAL EQUITY		**3 079**	**2 698**
TOTAL LIABILITIES AND EQUITY		**28 478**	**21 646**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 6 April 2011 and any further changes require approval of this body.

ABH Financial Limited
Consolidated Statement of Comprehensive Income

In millions of US Dollars	Note	2010	2009
Interest income	23	2 320	2 519
Interest expense	23	(972)	(1 403)
Expenses directly attributable to leasing and deposit insurance	23	(41)	(41)
Net margin		**1 307**	**1 075**
Provision for loan impairment	9,10	(370)	(589)
Net margin after provision for loan impairment		**937**	**486**
Fee and commission income	24	436	339
Fee and commission expense	24	(119)	(84)
Gains less losses arising from trading securities		70	173
Gains less losses arising from interest based derivatives		(15)	(118)
Gains less losses arising from foreign currencies and precious metals	25	57	(51)
Gains less losses arising from investments	11	87	(3)
Gains less losses arising from acquisition of own debts	26	(5)	49
Other provisions	12,13,21,33	12	5
Loss on disposal of subsidiaries		-	(5)
Other operating income	27	82	80
Operating expenses	28	(842)	(747)
Profit before tax		**700**	**124**
Income tax expense	29	(147)	(47)
Profit for the year		**553**	**77**
Other comprehensive income:			
Available for sale investments:			
- Fair value gains less losses during the year	11	52	85
- Reclassification adjustments for losses included in profit or loss	11	(54)	33
Revaluation of premises and equipment	14	4	(19)
Effect of translation of the financial statements of foreign operations		(41)	(6)
Net change in hedge of net investment in foreign operations	34	14	61
Income tax recordered directly in other comprehensive income	29	3	(15)
Other comprehensive (loss)/income for the year		**(22)**	**139**
Total comprehensive income for the year		**531**	**216**
Profit is attributable to:			
The Company's owners		550	88
Non-controlling interest		3	(11)
Profit for the year		**553**	**77**
Total comprehensive income is attributable to:			
The Company's owners		528	227
Non-controlling interest		3	(11)
Total comprehensive income for the year		**531**	**216**

The notes set out on pages 5 to 91 form an integral part of these consolidated financial statements.

In millions of US Dollars	**Attributable to the Company's owners**						**Non-controlling interest**	**Total equity**
	Share capital (Note 22)	**Fair value reserve for investments available for sale**	**Revaluation reserve for premises and equipment**	**Cumulative translation reserve**	**Retained earnings**	**Total**		
Balance as at 1 January 2009	**945**	**(45)**	**53**	**(359)**	**1 554**	**2 148**	14	**2 162**
Total comprehensive income for the year	-	99	(15)	55	88	227	(11)	216
Realised revaluation reserve	-	-	(5)	-	5	-	-	-
Share capital contribution (Note 22)	320	-	-	-	-	320	-	320
Balance as at 31 December 2009	**1 265**	**54**	**33**	**(304)**	**1 647**	**2 695**	**3**	**2 698**
Total comprehensive income for the year	-	1	4	(27)	550	528	3	531
Realised revaluation reserve	-	-	(7)	-	7	-	-	-
Dividends declared (Note 22)	-	-	-	-	(150)	(150)	-	(150)
Acquisition of non-controlling interest	-	-	-	-	6	6	(6)	-
Balance as at 31 December 2010	**1 265**	**55**	**30**	**(331)**	**2 060**	**3 079**	**-**	**3 079**

In millions of US Dollars	Note	2010	2009
Cash flows from operating activities			
Interest received		2 254	2 448
Interest paid, other than on debt securities issued, syndicated and other debt and subordinated debt		(606)	(1 222)
Expense directly attributable to the lending operations		(39)	(42)
Fees and commissions received		428	354
Fees and commissions paid		(121)	(87)
Net income received from trading securities		80	240
Net income received from trading in foreign currencies		(196)	228
Net income received from interest rate derivatives		(22)	48
Other operating income received		71	95
Staff costs paid		(438)	(360)
Other operating expenses paid		(283)	(289)
Income tax paid		(193)	(25)
Cash flows from operating activities before changes in operating assets and liabilities		**935**	**1 388**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with central banks		(43)	(71)
Net increase in trading securities and repurchase receivables		(1 025)	(586)
Net increase in due from other banks		(502)	(510)
Net (increase)/ decrease in loans and advances to customers		(3 706)	3 628
Net (increase)/ decrease in other assets and other financial assets		(20)	102
Net increase/(decrease) in due to other banks		1 010	(5 980)
Net increase in customer accounts		3 381	1 432
Net decrease in other liabilities and other financial liabilities		(65)	(127)
Net cash used in operating activities		**(35)**	**(724)**
Cash flows from investing activities			
Acquisition of investments available for sale	11	(795)	(1 161)
Proceeds from disposal of investments available for sale	11	509	337
Acquisition of investments at fair value through profit and loss		(11)	(10)
Disposal of investments at fair value through profit and loss		13	8
Acquisition of investments held to maturity		(411)	-
Proceeds from disposal of investments held to maturity		93	-
Acquisition of premises, equipment and intangible assets	13,14	(61)	(65)
Proceeds from disposal of premises, equipment and intangible assets	13,14	31	18
Proceeds from disposal of subsidiaries, net of cash disposed of		-	(60)
Dividend income received	27	1	1
Net cash used in investing activities		**(631)**	**(932)**
Cash flows from financing activities			
Share capital contribution	22	-	320
Repayment of syndicated and other debt	18	(99)	(749)
Interest paid on syndicated and other debt	23	(13)	(22)
Proceeds from debt securities issued	17	3 260	538
Repayment of debt securities issued	17	(759)	(1 384)
Interest paid on debt securities in issue	23	(166)	(155)
Proceeds from subordinated debt	19	-	1 308
Repayment of subordinated debt	19	(185)	(18)
Interest paid on subordinated debt	23	(116)	(72)
Net cash from/(used in) financing activities		**1 922**	**(234)**
Net increase/(decrease) in cash and cash equivalents		**1 256**	**(1 890)**
Cash and cash equivalents at the beginning of the year	7	1 966	3 860
Effect of exchange rate changes on cash and cash equivalents		(40)	(4)
Cash and cash equivalents at the end of the year	**7**	**3 182**	**1 966**

The notes set out on pages 5 to 91 form an integral part of these consolidated financial statements.

1 Introduction

ABH Financial Limited (the "Company") and its subsidiaries (the "Group") comprise three main segments: corporate and investment banking, retail banking and treasury operations (Note 30). The corporate banking, retail banking and treasury operations of the Group are carried out principally by Open Joint Stock Company Alfa-Bank ("Alfa-Bank") and its subsidiaries. The investment banking activities of the Group are carried out mainly by Alfa Capital Holdings (Cyprus) Limited together with certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation.

The Company is a limited liability company originally registered in the British Virgin Islands and since 4 April 2011 registered in the Republic of Cyprus. The Company is wholly owned by ABH Russia Limited, a Cyprus company, which is in turn a wholly owned subsidiary of ABH Holdings S.A. ("ABHH"), a Luxembourg company, owned by six individuals. Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Controlling Shareholders") collectively control and own a 77.86% interest in ABHH. None of the Controlling Shareholders individually controls and/or owns a 50% or more interest in ABHH.

The Controlling Shareholders also own a 100% interest in CTF Holdings Limited ("CTFH"). ABHH and CTFH are parent companies of Alfa Group.

As at 31 December 2010 the Group had 364 offices (including branches, regional branches and outlets), most of which were operated by Alfa-Bank (2009: 326 offices).

Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank, corporate and retail loans and deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles ("RR") and foreign currencies to its customers. Alfa-Bank participates in the State deposit insurance scheme. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 0.7 million per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities. Alfa-Bank's major subsidiaries comprise Amsterdam Trade Bank N.V. (Netherlands) and OJSC Bank Severnaya Kazna (Russian Federation). In September 2010 the Group completed the acquisition of minority stake of OJSC Bank Severnaya Kazna and became the owner of 100% of its capital (2009: 85%).

Alfa-Bank's registered office is located at 27 Kalanchyovskaya Street, Moscow 107078, Russian Federation. Alfa-Bank's principal place of business is 9 Mashi Poryvaevoy Street, Moscow 107078, Russian Federation.

The Company is the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking business including proprietary trading and brokerage activities, investment and merchant banking and asset management. Alfa Capital Holdings (Cyprus) Limited is regulated by the Cyprus Securities and Exchange Commission and licensed principally for brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus.

Alfa Capital Holdings (Cyprus) Limited is registered at Elenion Building, 5 Themistocles Dervis Street, 2nd floor, CY-1066 Nicosia, Cyprus.

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

The recent global financial crisis has had a significant effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010 the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased money market liquidity levels.

2 Operating Environment of the Group (Continued)

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes (Note 33). The need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in the Russian Federation.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equimpment under operating lease, available for sale financial assets and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Note 5).

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies' law in their respective jurisdictions. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

Presentation currency. These consolidated financial statements are presented in millions of US Dollars. The US Dollar has been selected as the presentation currency of the Group as US Dollar is the currency which Management of the Group uses to manage business risks and exposures, and measure the performance of its businesses.

Functional currencies. Different entities within the Group may have different functional currencies, based on the underlying economic conditions of their operations. In particular, OJSC Alfa-Bank and OJSC Bank Severnaya Kazna have Russian Roubles as their functional currency, as their activities are mostly based in the Russian Federation and are dependent on the condition of the Russian economy. Amsterdam Trade Bank N.V. has Euro as its functional currency, as its activities are mostly based in Europe and are dependent on the condition of the economy in Europe. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currency, as their operations are managed in US Dollars and the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble). Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under "Foreign Currency Translation" section of this note.

Consolidated financial statements. Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies usually accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

3 Summary of Significant Accounting Policies (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debts are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Intercompany transactions, balances and unrealised gains on the transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest form a separate component of the Group's equity.

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

Foreign currency translation. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end exchange rates are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each Group entity (none of which is in a hyperinflationary economy) are translated into US Dollar as presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

As at 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.4769 (2009: USD 1 = RR 30.2442), the average exchange rate was USD 1 = RR 30.3692 (2009: USD 1 = RR 31.7231).

Financial Instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost, as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in the consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in a significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating the interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy within this note).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Summary of Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with central banks. Mandatory balances with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and other local central banks, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within three months.

The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities, calculated using the effective interest method, is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks, with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired. Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. This assessment is carried out individually on financial assets that are considered individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets for collective assessment. The primary factors that the Group considers whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

3 Summary of Significant Accounting Policies (Continued)

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- delinquency in contractual payments of principal and interest except delay caused by the settlement systems;
- breach of loan covenants or conditions;
- the borrower experiences significant financial difficulty as evidenced by the borrower's financial information that Management obtains;
- initiation of bankruptcy proceedings or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- there are significant changes in the borrower's management structure which is likely to cause late payment or no payment;
- third party actions: legal and/or tax claims against the borrower (guarantor, underwriter), arrest or seizure of the borrower's (guarantor's, underwriter's) property including property pledged with the Group;
- any encumbrance of the borrower's property (pledge, rent, trust management, etc.) without the Group's written approval, where required;
- damage or loss of collateral obtained;
- disablement or death of the borrower (guarantor, underwriter) or business owner (more than 50% of share capital);
- change of the borrower's (guarantor's, underwriter's) place of residence and/or place of work without written notice sent to the Group;
- there is reliable information that the borrower (guarantor, underwriter) or business owner (more than 50% of share capital) is missing or has been abroad for more than 1 year;
- the borrower (guarantor, underwriter) or business owner (more than 50% of share capital) is imprisoned or arrested;
- termination or change of the borrower's commercial activity.

The estimated period between a loss occurring and its identification is determined by Management for each identified portfolio, based on analysis of historical data. For the purposes of a collective impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 Summary of Significant Accounting Policies (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets including accrued interest are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Necessary procedures to recover the asset include: (i) sending a notification on the repayment of debt to the borrower and the surety, (ii) negotiations with the borrower's management and owners, (iii) analysing liquidity of the borrower's assets, which can be foreclosed to settle the debt, (iv) review condition of the pledged property, (v) submitting legal claims through the courts, and (vi) sale of foreclosed property. Loans to individuals are written off after 180 days of non-payment except for mortgage loans which are written off after 540 days of non-payment.

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. These assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these asset categories.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer does not meet its obligations to third parties and carry the same credit risk as loans. Credit related commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

Investments available for sale. This classification includes investments which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices. The Group classifies investments as available for sale at the time of purchase.

Investments available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from other comprehensive income to profit and loss for the year.

Impairment losses are recognised in profit and loss when incurred as a result of one or more events that occurred after the initial recognition. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss - is reclassified from other comprehensive income to profit and loss for the year. Impairment losses on equity instruments are not reversed and subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Investments designated at fair value through profit or loss at inception. Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Board of Directors.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. Securities sold under sale and repurchase agreements are not derecognised. The corresponding liability is presented within amounts due to other banks or customer accounts depending on counterparty. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell are recorded as due from other banks or loans and advances to customers as appropriate.

Securities lent to counterparties are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in profit or loss for the year. The obligation to return them is recorded at fair value as a trading liability.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Equipment is stated at cost less accumulated depreciation and provision for impairment, where required.

Premises of the Group and equipment under operating lease are subject to revaluation on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises and equipment under operating lease included in equity is transferred directly to retained earnings when the surplus is realised (i.e. as the asset is used by the Group). The amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated statement of financial position at their estimated fair value at the date of acquisition of the acquired subsidiary, being their cost to the Group.

3 Summary of Significant Accounting Policies (Continued)

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to profit or loss for the year, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in profit or loss for the year. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by comparing their carrying amount with the sale proceeds and are recognised in profit or loss for the year.

Customer relationship. Customer relationship includes relationships with the corporate and individual customers which kept current accounts with the bank at the time of the business combination. Customer relationship is amortised on a diminishing balance basis reflecting the pattern in which the asset's future economic benefits are expected to be consumed.

Computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Internal development costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises	2% per annum;
Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Leasehold improvements	over the term of the underlying lease;
Equipment under operating lease	10% per annum.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. Operating leases include long-term leases of land with rental payments contingent on cadastral values regularly reviewed by the government.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

3 Summary of Significant Accounting Policies (Continued)

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the gross investment in the lease. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities issued. Debt securities issued include promissory notes, bonds, commercial paper and term notes. Promissory notes issued by the Group have a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Debt securities are stated at amortised cost.

If the Group purchases its own debt securities issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

Syndicated loans. Syndicated loans are loans in which a group of financial institutions provides funds to the Group. Syndicated loans are carried at amortised cost.

Subordinated debt. Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Acquired own subordinated notes are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the loans provided by the State at rates below market are recorded as deferred income and are credited to profit or loss for the year using a method achieving matching with respective expenses or losses. Such government grants are initially measured as the difference between the proceeds and the initial fair value of the loan, net of transaction costs.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

3 Summary of Significant Accounting Policies (Continued)

Dividends. Dividends are recorded in equity in the period in which they are approved by the shareholders of the Company. Dividends that are declared after the end of the reporting period are disclosed as subsequent events.

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the year in gains less losses arising from foreign currencies and precious metals and gains less losses arising from trading securities, depending on the related contracts, unless the derivatives qualify as hedging instruments.

The Group designates certain derivatives as hedge of a part of the net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The compliance with these criteria are reviewed by the Group at a monthly basis. Starting from 1 July 2010 the Group decided to stop hedge accounting.

The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges of net investment in foreign operations are recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in profit or loss for the year.

Accumulated gains or losses are recycled from other comprehensive income to profit or loss for the year in the periods when the hedged item is disposed of.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted at the end of the reporting period which are expected to apply when the temporary difference reverses are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Income and expense recognition. Interest income and expense are recorded in profit or loss for the year for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Expenses directly attributable to leasing and deposit insurance. Expenses directly attributable to leasing and deposit insurance comprise of property tax and insurance costs relating to the leased assets as well as contributions paid to the State Deposit Insurance Agency. These expenses are not incremental transaction costs that would have to be recognized as part of the effective interest rate.

Property tax and insurance costs relating to the leased assets are not subject to deduction from or offsetting with the minimum lease payments receivable because they are not reimbursable to the lessor. The lease contract has an option for the lessor to change lease payments if property tax, insurance, and borrowing costs change, but there is no obligation to do so, and the lessor has a primary responsibility for the payment of insurance and property tax.

Contributions paid to the State Deposit Insurance Agency are not linked to particular customer deposits or deposit products.

Fiduciary assets. The Group commonly acts as trustee and in other fiduciary capacities that result in the holding of assets on behalf of individuals and institutions. These assets and liabilities arising thereon are excluded from the consolidated financial statements, as they are not assets and liabilities of the Group. For the purposes of disclosure fiduciary activities do not encompass safe custody function. Commissions received from fiduciary activities are shown in fee and commission income.

3 Summary of Significant Accounting Policies (Continued)

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount which are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in accordance with the existing employee compensation plans. Discretionary employee compensations are subject to Management's approval and are disclosed within staff costs. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of USD 138 million (2009: USD 150 million), respectively.

Fair value of financial instruments. The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require the Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Refer to Note 35.

Income taxes. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain (Note 33). The Group records liabilities for completed and anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the current and deferred taxation in the period in which such determination is made.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Management applies its judgement in interpretation of existing tax legislation for the purposes of assessment of current and deferred taxation. Also, Management uses judgement to assess the realisability of deferred tax assets, which is subject to availability of profits and other circumstances, including the ability to claim full deduction of the expenses incurred in relation to the underlying assets and liabilities. Management reassesses current and deferred tax balances at each reporting date and adjusts them accordingly.

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities.

Specifically, in determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble) and their major activities include provision of services to foreign investors. Moreover, the majority of their operations are denominated in US Dollars and also, the US Dollar is the currency in which their business risks and exposures are managed and the performance of their business is measured.

Accounting for subordinated loans from VEB. The Russian government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank Razvitiya i Vneshneekonomicheskoy Deyatelnosti ("VEB") to grant subordinated loans to selected banks. This was done through Federal Law 173-FZ of 13 October 2008 "On additional measures aimed at supporting the financial system of the Russian Federation".

On 29 January 2009 the Group received a subordinated loan from VEB in the amount of RR 10 201 million (equivalent of USD 307 million) bearing a fixed interest rate of 8% per annum payable quarterly until maturity on 25 December 2019, followed by the second tranche of that subordinated loan in the amount of RR 231 million (equivalent of USD 8 million) received on 19 October 2009.

In October 2009 the Group received another subordinated loan from VEB in the amount of RR 29 181 million (equivalent of USD 994 million) bearing a fixed interest rate of 9.5% per annum plus a fee of 0.03% per annum, which matures on 25 December 2020. The Group has an option to repay this loan at any time subject to approvals from the CBRF and VEB.

In accordance with the terms of the loan agreements Alfa-Bank is required (i) to maintain a portfolio of loans with a term of not less than six months issued to priority sectors of the economy in Russia in the amount of the January 2009 subordinated loan outstanding; (ii) to maintain a portfolio of loans with a term of not less than one year issued to priority sectors of the economy in Russia in the amount of the October 2009 subordinated loan outstanding at interest rates less than or equal to the CBRF refinancing rate plus three percent; (iii) to obtain approval from VEB for certain significant transactions and (iv) to include VEB nominees in Alfa-Bank's management bodies. In June 2010 the first deputy CEO of VEB was appointed to the Board of Directors of Alfa-Bank.

Due to its unique terms and conditions, subordinated nature and absence of observable current market transactions providing evidence of a market rate for such instruments, the loans were originally recognized and subsequently carried on the statement of financial position at amortised contractual value.

If there was evidence that the market interest rate for such loans was higher than the contractual interest rates, the amortised contractual value of the loans would have been replaced by (i) amortised value of the loans determined based on the fair value of the loans at the date of origination and (ii) unamortised value of the government grants embedded in such low interest loans; there would have been no impact on the profit or loss for the year since the increased effective interest rates would have been offset by amortisation of the government grants.

Accounting for change of interest rates on the subordinated loans from VEB. In accordance with amendments to the Federal Law 173-FZ approved in July 2010, since 25 August 2010 the interest rates on the above subordinated loans were reduced from 8% per annum to 6.5% per annum on the loan maturing on 25 December 2019 and from 9.5% to 7.5% on the loan maturing on 25 December 2020. All other terms of these loans remain unchanged.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

The Group accounted for such reduction in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”. The revised carrying value of the loans as at 25 August 2010 of USD 1 148 million represented the future revised cash flows relating to the loans discounted at the loans' original effective interest rate. The difference in the amount of USD 157 million between the previous and revised carrying value of the loans was recorded at 25 August 2010 as government grant deferred income within other liabilities and is to be amortised through interest expense until the loans' maturity dates. Refer to Note 21.

The Group could have accounted for the above reduction of interest rates in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” and the difference between the previous and revised carrying value of the loans would be recorded in full in the profit or loss in the consolidated statement of comprehensive income for the year ended 31 December 2010.

Accounting for investment in PAO Alfa-Bank Ukraine. During 2010 the Group acquired for cash consideration of USD 93 million newly issued shares of PAO Alfa-Bank Ukraine, a subsidiary of ABH Ukraine Group, and simultaneously entered into a sale and purchase agreement with ABH Ukraine Limited, parent of ABH Ukraine Group, which is wholly owned and controlled by ABHH (Note 1), whereby (i) the Group agreed to transfer immediately to ABH Ukraine Limited all voting rights, rights for representation in governance bodies of PAO Alfa-Bank Ukraine and rights for future distributions arising from the shares, (ii) the Group agreed not to transfer the shares to any other party other than ABH Ukraine Limited and (iii) the Group and ABH Ukraine agreed to execute transfer of the shares from the Group to ABH Ukraine Limited at any date indicated by the Group or by ABH Ukraine Limited but before 31 December 2014 and in exchange for payment by ABH Ukraine of USD 93 million consideration. The performance of ABH Ukraine under the above contract is guaranteed by ABHH.

The management of the Group concluded that as a result of the above transactions the Group in substance purchased and immediately sold the shares. The balance receivable from the ABH Ukraine Limited in the amount of USD 93 million was recorded within other financial assets and carries no interest.

Balances receivable from ABH Ukraine Group. As at 31 December 2010 the Group had significant balances outstanding from ABH Ukraine Group (Note 36). Majority of these obligations is guaranteed by ABHH and ABH Russia Limited, shareholders of the Group (Note 1). The recent global financial crisis had a significant negative impact on Ukraine and the financial position of ABH Ukraine Group. Taking into account the support of ABH Ukraine Group by ABHH, the management of the Group concluded that the balances receivable from ABH Ukraine Group will be repaid in accordance with their contractual terms.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 36.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interest (previously "minority interest") even if this results in the non-controlling interest having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The revised IAS 27 did not have a material impact on these consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interest using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these consolidated financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendments did not have a material impact on these consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these consolidated financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these consolidated financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its consolidated financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have any effect on its consolidated financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Group's consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interest that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was early adopted by the Group); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

The Group does not expect the amendments to have any effect on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of US Dollars	2010	2009
Cash on hand	557	506
Cash balances with central banks (other than mandatory cash balances)	990	935
Correspondent and settlement accounts with banks and financial institutions		
- Russian Federation	95	154
- Europe and USA	947	225
- Other countries	2	11
Overnight placements with other banks		
- Russian Federation	401	78
- Other countries	190	57
Total cash and cash equivalents	**3 182**	**1 966**

The credit quality of balances on correspondent and settlement accounts with banks and financial institutions is managed through a system of qualitative risk management procedures comprising credit risk assessment before acceptance. Furthermore, after establishing a correspondent account, depending on the magnitude of the balance, Management carries out regular monitoring of the financial position and performance of the counterparties.

The analysis by credit quality of overnight placements is based on their stratification by set limits. Higher limits are assigned to counterparties whose credit quality is better. Analysis by credit quality of overnight placements was as follows:

In millions of US Dollars	2010	2009
Neither past due nor impaired		
- limit above USD 100 million	449	108
- limit below USD 100 million	142	27
Total overnight placements	**591**	**135**

As at 31 December 2010 the ten largest aggregate balances on correspondent and settlement accounts and overnight placements with other banks and financial institutions amounted to USD 1 549 million (2009: USD 485 million) or 94.7% (2009: 92.4%) of the correspondent and settlement accounts and overnight placements.

For the purposes of measurement the Group classified all balances included in cash and cash equivalents as loans and receivables. Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

8 Trading Securities and Repurchase Receivables

In millions of US Dollars	2010	2009
Trading securities		
Corporate bonds	630	383
Corporate Eurobonds	421	554
Promissory notes	190	-
Bonds of other states	56	-
Eurobonds of other states	30	347
Municipal bonds	15	1
Russian Federation bonds	2	-
Municipal eurobonds	-	40
Total debt trading securities	**1 344**	**1 325**
Corporate shares	44	30
ADRs and GDRs	38	17
Total trading securities	**1 426**	**1 372**
Repurchase receivables		
Corporate Eurobonds	442	-
Russian Federation bonds and Eurobonds	201	-
Corporate bonds	164	-
Municipal bonds	102	-
Repurchase receivables relating to debt securities	**909**	**-**
ADRs and GDRs	5	-
Total repurchase receivables	**914**	**-**
Total trading securities and repurchase receivables	**2 340**	**1 372**

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Note 15). The counterparty financial institutions have a right to resell or pledge these securities.

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2010 these bonds have maturity dates ranging from February 2011 to February 2041 (2009: February 2010 to November 2019), coupon rates from 0.1% to 19% p.a. (2009: from 7.1% to 25.0% p.a.) and yields to maturity from 1.5% to 14.6% p.a. (2009: from 1.2% to 19.8%p.a.), depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles, Euros and Swiss Franc, issued mainly by large Russian and CIS companies and freely tradable internationally. As at 31 December 2010 these bonds have maturity dates ranging from February 2011 to January 2035 (2009: from February 2010 to July 2035), coupon rates from 1.3% to 15% p.a. (2009: from 1.3% to 13.5% p.a.) and yields to maturity from 2.5% to 62.5% p.a. (2009: from 2.4% to 23.6% p.a.), depending on the type of bond issue.

Russian Federation bonds and Eurobonds are interest-bearing securities issued by Ministry of Finance of the Russian Federation and freely tradable internationally, denominated in US Dollars and Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2010 these bonds have maturity dates ranging from October 2012 to March 2030, coupon rates from 3.6% to 12.7% p.a. and yields to maturity from 4.1% to 7.6%, depending on the type of bond issue.

Promissory notes are non interest-bearing securities issued by large Russian banks and international companies, denominated in Russian Roubles and US Dollars and freely tradable in the Russian Federation. As at 31 December 2010 these securities have maturity dates ranging from March 2011 to August 2012 and yields to maturity from 5.5% to 29.0% p.a.

8 Trading Securities and Repurchase Receivables (Continued)

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2010:

In millions of US Dollars	Corporate Eurobonds	Corporate bonds	Promissory notes	Russian Federation bonds and Eurobonds	Municipal bonds	Bonds of other states	Eurobonds of other states	Total
Neither past due nor impaired (at fair value)								
- limit above USD 50 million	127	416	88	54	15	44	30	774
- limit from USD 10 to 50 million	174	160	102	-	-	-	-	436
- position hedged by derivatives	549	218	-	149	102	12	-	1 030
- other	12	-	-	-	-	-	-	12
Total neither past due nor impaired debt trading securities and repurchase receivables	**862**	**794**	**190**	**203**	**117**	**56**	**30**	**2 252**
Past due (at fair value)								
- 180-360 days overdue	1	-	-	-	-	-	-	1
Total debt trading securities and repurchase receivables	**863**	**794**	**190**	**203**	**117**	**56**	**30**	**2 253**

Analysis by credit quality of debt trading securities was as follows as at 31 December 2009:

In millions of US Dollars	Corporate Eurobonds	Corporate bonds	Eurobonds of other states	Municipal eurobonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)						
- limit above USD 50 million	18	67	337	40	-	462
- limit from USD 10 to 50 million	176	137	-	-	-	313
- limit below USD 10 million	7	-	-	-	-	7
- position hedged by derivatives	338	177	10	-	1	526
- other	12	2	-	-	-	14
Total neither past due nor impaired debt trading securities	**551**	**383**	**347**	**40**	**1**	**1 322**
Past due (at fair value)						
- 30 to 90 days overdue	3	-	-	-	-	**3**
Total debt trading securities	**554**	**383**	**347**	**40**	**1**	**1 325**

The above analysis by credit quality is based on the stratification by set limits. Larger limits are assigned to counterparties whose credit quality is better.

8 Trading Securities and Repurchase Receivables (Continued)

As at 31 December 2010 and as at 31 December 2009 the long balance sheet position of the Group in trading securities and repurchase receivables was partially hedged by an opposite position in derivative financial instruments for those securities. These economic hedges significantly reduce credit risk related to respective securities and therefore such securities are not covered by individual limits and disclosed separately in the table above. Refer to Note 34.

Trading securities and repurchase receivables are carried at fair value which also reflects any credit risk related write-downs.

For the purposes of measurement the Group classified all balances included in trading securities and repurchase receivables as financial assets at fair value through profit or loss held for trading.

Currency, maturity and interest rates analyses of trading securities and repurchase receivables are disclosed in Note 31. The information on securities issued by related parties and owned by the Group is disclosed in Note 36.

9 Due from Other Banks

In millions of US Dollars	2010	2009
Term placements with other banks	2 357	2 260
Subordinated loan to PAO Alfa-Bank Ukraine	248	-
Reverse sale and repurchase agreements with other banks	149	10
Total due from other banks	**2 754**	**2 270**

In July 2010 the Group purchased from a subsidiary of ABH Ukraine Group (Note 36) for USD 248 million subordinated loan outstanding from PAO Alfa-Bank Ukraine with total principal amount of USD 248 million, interest rate of 5.75% p.a. and maturity dates in 2016-2017. The loan is guaranteed by ABH Russia Limited (Note 1).

As at 31 December 2010 reverse sale and repurchase agreements with other banks were effectively collateralised by securities purchased with estimated fair value of USD 154 million (2009: USD 10 million), all of which the Group had the right to sell or repledge.

As at 31 December 2010 the ten largest aggregate balances due from other banks amounted to USD 2 089 million (2009: USD 1 660 million) or 75.9% (2009: 73.1%) of total due from other banks.

Movements in the provision for impairment of due from other banks are as follows:

In millions of US Dollars	2010	2009
Provision for impairment as at 1 January	**-**	**5**
Recovery of provision for impairment during the year	-	(5)
Provision for impairment as at 31 December	**-**	**-**

9 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2010 was as follows:

In millions of US Dollars	Term placements with other banks	Subordinated loan to PAO Alfa-Bank Ukraine	Reverse sale and repurchase agreements with other banks	Total
Neither past due nor impaired				
- limit above USD 200 million	1 308	-	-	1 308
- limit from USD 100 to 200 million	487	-	11	498
- limit below USD 100 million	562	-	138	700
- Subordinated loan to PAO Alfa-Bank Ukraine	-	248	-	248
Total due from other banks	**2 357**	**248**	**149**	**2 754**

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2009 was as follows:

In millions of US Dollars	Term placements with other banks	Reverse sale and repurchase agreements with other banks	Total
Neither past due nor impaired			
- limit above USD 200 million	411	-	411
- limit from USD 100 to 200 million	1 301	-	1 301
- limit below USD 100 million	541	10	551
- other	7	-	7
Total due from other banks	**2 260**	**10**	**2 270**

The above analysis by credit quality is based on the stratification by set limits. Larger limits are assigned to counterparties whose credit quality is better. The subordinated debt of the ABH Ukraine is guaranteed by ABH Russia Limited (Note 1) and is presented separately in the above analysis.

As at 31 December 2010 included within term placements with other banks are deposits placed under the Diversified Payment Rights Secured Debt Issuance Programme in the amount of USD 75 million (2009: USD 77 million). Refer to Notes 17 and 33.

As at 31 December 2010 included within term placements with other banks are margin call deposits in the amount of USD 273 million (2009: USD 247 million) placed as collateral under transactions with derivatives and operations with securities. Refer to Note 33.

As at 31 December 2010 and 2009 the fair value of each class of financial assets included in due from other banks approximated their carrying value. Refer to Note 35.

For the purposes of measurement the Group classified all balances included in due from other banks as loans and receivables. Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

10 Loans and Advances to Customers

In millions of US Dollars	2010	2009
Corporate loans	14 348	11 461
Finance lease receivables	1 034	1 188
Reverse sale and repurchase receivables	242	58
Loans to small and medium-size enterprises (SMEs)	240	117
Advances on lease operations	25	25
Total gross loans and advances to corporate customers	**15 889**	**12 849**
Less: Provision for loan impairment	(1 324)	(1 403)
Total loans and advances to corporate customers	**14 565**	**11 446**
Loans to individuals - credit cards and personal instalment loans (PILs)	824	835
Loans to individuals - consumer loans	856	387
Loans to individuals - mortgage loans	355	428
Loans to individuals - car loans	216	426
Reverse sale and repurchase receivables	35	28
Total gross loans and advances to individuals	**2 286**	**2 104**
Less: Provision for loan impairment	(56)	(101)
Total loans and advances to individuals	**2 230**	**2 003**
Total loans and advances to customers	**16 795**	**13 449**

Movements in the provision for loan impairment during 2010 were as follows:

					Loans to individuals				
In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Advances on lease operations	Credit cards and PILs	Consumer loans	Mortgage loans	Car loans	Total
Provision for loan impairment as at 1 January 2010	**1 173**	**195**	**26**	**9**	**51**	**17**	**20**	**13**	**1 504**
Provisions during the year	316	62	(5)	(7)	8	35	7	6	422
Amounts written off as uncollectible	(375)	(50)	-	-	(40)	(27)	(16)	(14)	(522)
Translation movement	(16)	(3)	(1)	-	(2)	(1)	(1)	-	(24)
Provision for loan impairment as at 31 December 2010	**1 098**	**204**	**20**	**2**	**17**	**24**	**10**	**5**	**1 380**

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2009 were as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Advances on lease operations	Loans to individuals: Credit cards and PILs	Loans to individuals: Consumer loans	Loans to individuals: Mortgage loans	Loans to individuals: Car loans	Total
Provision for loan impairment as at 1 January 2009	**1 011**	**33**	**27**	**2**	**49**	**41**	**4**	**23**	**1 190**
Provisions during the year	277	163	-	7	116	23	16	26	628
Amounts written off as uncollectible	(89)	-	-	-	(110)	(43)	-	(34)	(276)
Disposal of subsidiary	(3)	-	-	-	-	-	-	-	(3)
Translation movement	(23)	(1)	(1)	-	(4)	(4)	-	(2)	(35)
Provision for loan impairment as at 31 December 2009	**1 173**	**195**	**26**	**9**	**51**	**17**	**20**	**13**	**1 504**

The provision for loan impairment during 2010 differs from the amount presented in profit or loss for the year due to USD 52 million (2009: USD 34 million) recovery during 2010 of amounts previously written off as uncollectible. This amount was credited directly to the provisions line in profit or loss for the year.

Economic sector risk concentrations within the loans and advances to customers were as follows:

In millions of US Dollars	31 December 2010 Amount	31 December 2010 %	31 December 2009 Amount	31 December 2009 %
Individuals	2 286	14	2 104	14
Trade and commerce	2 069	11	1 418	9
Construction	2 064	11	2 129	16
Power generation	1 751	10	1 120	7
Railway transport	1 471	8	1 593	11
Ferrous metallurgy	1 470	8	662	4
Finance and investment companies	1 067	6	756	5
Food industry	1 055	6	468	3
Armament production	964	5	549	4
Nuclear industry	866	5	622	4
Oil industry	618	3	77	1
Machinery and metal working	394	2	804	5
Aviation transport	391	2	247	2
Non-ferrous metallurgy	325	2	355	2
Mass media and telecommunications	212	1	256	2
Coal industry	193	1	359	2
Agriculture	139	1	182	1
Chemistry and petrochemistry	125	1	379	3
Water transport	54	-	31	-
Timber industry	44	-	35	-
Natural gas industry	41	-	24	-
Diamond extraction and processing	30	-	275	2
Other	546	3	508	3
Total gross loans and advances to customers	**18 175**	**100**	**14 953**	**100**

10 Loans and Advances to Customers (Continued)

As at 31 December 2010 aggregate loans and advances to the ten largest borrowers (or groups of related borrowers) amounted to USD 5 145 million (2009: USD 4 243 million) or 28.3% (2009: 28.4%) of the gross loans and advances to customers, while aggregate loans and advances to the 20 largest borrowers (or groups of related borrowers) amounted to USD 8 039 million (2009: USD 6 339 million) or 44.2% (2009: 42.4%) of the gross loans and advances to customers.

As at 31 December 2010 loans and advances to customers in the total amount of USD 158 million (2009: USD 497 million) were pledged as collateral for the financing received from the State Deposit Insurance Agency (Note 18). As at 31 December 2009 USD 268 million of loans and advances to customers were pledged as collateral for the financing received from the CBRF (Note 15).

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2010 was as follows:

In millions of US Dollars	**Corporate loans**	**Finance lease receivables**	**Reverse sale and repurchase receivables**	**Loans to SMEs**	**Advances on lease operations**	**Total**
Neither past due nor impaired						
- Rating I	1 475	72	4	-	-	1 551
- Rating II	4 981	45	238	93	6	5 363
- Rating III	5 933	131	-	136	19	6 219
- Rating IV	397	2	-	2	-	401
- Loans renegotiated in 2010	623	410	-	-	-	1 033
Total gross neither past due nor impaired	**13 409**	**660**	**242**	**231**	**25**	**14 567**
Past due but not impaired						
- less than 30 days overdue	13	-	-	-	-	13
Total gross past due but not impaired	**13**	**-**	**-**	**-**	**-**	**13**
Individually determined to be impaired (gross)						
- not past due	293	274	-	1	-	568
- 30 to 90 days overdue	20	85	-	-	-	105
- 90 to 180 days overdue	40	-	-	-	-	40
- 180-360 days overdue	174	-	-	-	-	174
- over 360 days overdue	399	15	-	8	-	422
Total gross individually impaired loans	**926**	**374**	**-**	**9**	**-**	**1 309**
Total gross loans and advances	**14 348**	**1 034**	**242**	**240**	**25**	**15 889**
Provision for loan impairment	**(1 098)**	**(204)**	**-**	**(20)**	**(2)**	**(1 324)**
Total loans and advances to corporate customers	**13 250**	**830**	**242**	**220**	**23**	**14 565**

Refer to Note 31 for the description of credit quality ratings. The Group created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period. The Group's policy is to classify each loan as "current and not impaired" until specific objective evidence of impairment of the loan is identified.

Neither past due nor impaired, but renegotiated loans represent the carrying amount of loans to customers that would otherwise be past due or impaired had their terms not been renegotiated.

10 Loans and Advances to Customers (Continued)

The amount of loans reported as past due represents the whole balance of such loans while for some of them only individual instalments may be past due. The amount of those past due instalments on loans to corporate customers as at 31 December 2010 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Total
- past due instalments	472	88	8	568
- current portion of past due loans	174	12	-	186
Total past due loans and advances to corporate customers	**646**	**100**	**8**	**754**

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2009 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Reverse sale and repurchase receivables	Loans to SMEs	Advances on lease operations	Total
Neither past due nor impaired						
- Rating I	1 001	-	-	-	-	1 001
- Rating II	2 491	89	44	21	6	2 651
- Rating III	3 204	111	8	69	6	3 398
- Rating IV	160	3	6	-	-	169
- Loans renegotiated in 2009	1 561	154	-	-	-	1 715
Total gross neither past due nor impaired	**8 417**	**357**	**58**	**90**	**12**	**8 934**
Past due but not impaired						
- less than 30 days overdue	36	-	-	-	-	36
Total gross past due but not impaired	**36**	**-**	**-**	**-**	**-**	**36**
Individually determined to be impaired (gross)						
- not past due	750	137	-	4	13	904
- less than 30 days overdue	218	-	-	1	-	219
- 30 to 90 days overdue	181	694	-	-	-	875
- 90 to 180 days overdue	144	-	-	4	-	148
- 180-360 days overdue	1 190	-	-	6	-	1 196
- over 360 days overdue	525	-	-	12	-	537
Total gross individually impaired loans	**3 008**	**831**	**-**	**27**	**13**	**3 879**
Total gross loans and advances	**11 461**	**1 188**	**58**	**117**	**25**	**12 849**
Provision for loan impairment	**(1 173)**	**(195)**	**-**	**(26)**	**(9)**	**(1 403)**
Total loans and advances to corporate customers	**10 288**	**993**	**58**	**91**	**16**	**11 446**

10 Loans and Advances to Customers (Continued)

The amount of loans reported as past due represents the whole balance of such loans while for some of them only individual instalments may be past due. The amount of those past due instalments on loans to corporate customers as at 31 December 2009 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Total
- past due instalments	1 829	119	22	1 970
- current portion of past due loans	465	575	1	1 041
Total past due loans and advances to corporate customers	**2 294**	**694**	**23**	**3 011**

Analysis by credit quality of loans to individuals outstanding as at 31 December 2010 was as follows:

In millions of US Dollars	Credit cards and PILs	Consumer loans	Mortgage loans	Car loans	Reverse sale and repurchase receivables	Total
Neither past due nor impaired	797	820	329	203	35	2 184
Total gross neither past due nor impaired	**797**	**820**	**329**	**203**	**35**	**2 184**
Past due but not impaired						
- less than 30 days overdue	13	16	6	7	-	42
Total gross past due but not impaired	**13**	**16**	**6**	**7**	**-**	**42**
Individually determined to be impaired						
- 30 to 90 days overdue	6	10	5	3	-	24
- 90 to 180 days overdue	8	10	4	3	-	25
- 180 to 360 days overdue	-	-	1	-	-	1
- over 360 days overdue	-	-	10	-	-	10
Total gross individually impaired loans	**14**	**20**	**20**	**6**	**-**	**60**
Total gross loans and advances to individuals	**824**	**856**	**355**	**216**	**35**	**2 286**
Provision for loan impairment	**(17)**	**(24)**	**(10)**	**(5)**	**-**	**(56)**
Total loans and advances to individuals	**807**	**832**	**345**	**211**	**35**	**2 230**

Neither past due nor impaired loans to individuals represent loans without signs of individual impairment and originated on the basis of defined underwriting procedures (Note 31).

10 Loans and Advances to Customers (Continued)

The primary factors that the Group considers in determining whether a loan has become impaired are ability of borrowers to service their debt, loans and interest overdue status and realisability of related collateral, if any.

The amount of loans reported as past due represents the whole balance of such loans while for some of them only individual instalments may be past due. The amount of those past due instalments on loans to individuals as at 31 December 2010 was as follows:

In millions of US Dollars	Credit cards and PILs	Consumer loans	Mortgage loans	Car loans	Total
- past due instalments	12	15	12	2	41
- current portion of past due loans	15	21	14	11	61
Total past due loans and advances to individuals	**27**	**36**	**26**	**13**	**102**

Analysis by credit quality of loans to individuals outstanding as at 31 December 2009 was as follows:

In millions of US Dollars	Credit cards and PILs	Consumer loans	Mortgage loans	Car loans	Reverse sale and repurchase receivables	Total
Neither past due nor impaired	769	367	388	396	28	1 948
Total gross neither past due nor impaired	**769**	**367**	**388**	**396**	**28**	**1 948**
Past due but not impaired						
- less than 30 days overdue	25	9	7	13	-	54
Total gross past due but not impaired	**25**	**9**	**7**	**13**	**-**	**54**
Individually determined to be impaired						
- 30 to 90 days overdue	15	5	5	9	-	34
- 90 to 180 days overdue	26	6	8	8	-	48
- 180 to 360 days overdue	-	-	2	-	-	2
- over 360 days overdue	-	-	18	-	-	18
Total gross individually impaired loans	**41**	**11**	**33**	**17**	**-**	**102**
Total gross loans and advances to individuals	**835**	**387**	**428**	**426**	**28**	**2 104**
Provision for loan impairment	**(51)**	**(17)**	**(20)**	**(13)**	**-**	**(101)**
Total loans and advances to individuals	**784**	**370**	**408**	**413**	**28**	**2 003**

10 Loans and Advances to Customers (Continued)

The amount of loans reported as past due represents the whole balance of such loans while for some of them only individual instalments may be past due. The amount of those past due instalments on loans to individuals as at 31 December 2009 was as follows:

In millions of US Dollars	Credit cards and PILs	Consumer loans	Mortgage loans	Car loans	Total
- past due instalments	32	8	25	8	73
- current portion of past due loans	34	12	15	22	83
Total past due loans and advances to individuals	**66**	**20**	**40**	**30**	**156**

Maturities of gross and net investments in finance lease are analysed as follows:

In millions of US Dollars	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Gross finance lease receivable at 31 December 2010	**262**	**973**	**179**	**1 414**
Less future finance income on finance leases	(50)	(294)	(36)	(380)
Net investment in finance leases at 31 December 2010	**212**	**679**	**143**	**1 034**
Gross finance lease receivable at 31 December 2009	**385**	**1 040**	**245**	**1 670**
Less future finance income on finance leases	(56)	(371)	(55)	(482)
Net investment in finance leases at 31 December 2009	**329**	**669**	**190**	**1 188**

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2010 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Car loans	Mortgage loans	Total
Fair value of collateral - loans past due but not impaired						
- other real estate	13	-	-	-	-	13
- residential real estate	-	-	-	-	6	6
- other assets	-	-	-	4	-	4
Fair value of collateral - individually impaired loans						
- equipment	80	232	-	-	-	312
- other real estate	304	-	4	-	-	308
- other assets	32	-	-	4	-	36
- residential real estate	5	-	-	-	20	25
Total	**434**	**232**	**4**	**8**	**26**	**704**

10 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2009 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Mortgage loans	Car loans	Total
Fair value of collateral - loans past due but not impaired						
- equipment	33	-	-	-	-	33
- residential real estate	3	-	-	7	-	10
- other assets	-	-	-	-	8	8
Fair value of collateral - individually impaired loans						
- equipment	662	667	5	-	-	1 334
- other real estate	838	-	7	-	-	845
- other assets	96	-	-	-	11	107
- residential real estate	-	-	-	33	-	33
Total	**1 632**	**667**	**12**	**40**	**19**	**2 370**

Fair value of collateral was determined by the Group's lending department using the Group's internal guidelines on the basis of either internal expert evaluation, or an independent appraiser's evaluation or on the basis of the depreciated replacement cost of the collateral.

In the normal course of business the Group obtains collateral and/or guarantees and sureties for loans to legal entities. Acceptable collateral includes real estate, property, equipment, inventories, securities, contractual rights and certain other assets. Guarantees and sureties can be provided by controlling shareholders, government entities, banks and other solvent legal entities.

As at 31 December 2010 corporate loans in the amount of USD 6 103 million (2009: USD 4 925 million) were not secured (or were secured by low quality collateral which does not allow to classify the loan as secured using criteria of the Group) and loans in the amount of USD 4 280 million (2009: USD 1 545 million) were secured only by third party guarantees where guarantors are considered to be related to the borrower itself.

As at 31 December 2010 and 2009 most of the loans to small and medium size enterprises were secured by collateral or sureties. Finance lease receivables are secured by the leased equipment the title to which is normally retained by the Group for the duration of the lease. Reverse sale and repurchase agreements are effectively collateralised by securities purchased under those agreements. As at 31 December 2010 reverse sale and repurchase agreements were collateralised by securities purchased with estimated fair value of USD 342 million (2009: USD 81 million) all of which the Group had right to sell or repledge.

Credit cards, personal instalment and consumer loans to individuals are not secured. Car loans and mortgage loans to individuals are collateralised respectively by cars and property acquired.

The estimated fair value of loans and advances to customers was as follows:

	2010		2009	
In millions of US Dollars	Fair value	Carrying value	Fair value	Carrying value
Corporate loans	13 841	13 250	9 924	10 288
Finance lease receivables	843	830	833	993
Loans to individuals - consumer loans	925	832	382	370
Loans to individuals - credit cards and PILs	852	807	778	784
Loans to individuals - mortgage loans	318	345	364	408
Loans to SMEs	225	220	93	91
Loans to individuals - car loans	196	211	368	413
Reverse sale and repurchase receivables - corporate customers	242	242	58	58
Reverse sale and repurchase receivables - individuals	35	35	28	28
Advances on lease operations	25	23	14	16
Total loans and advances to customers	**17 502**	**16 795**	**12 842**	**13 449**

Refer to Note 35 for the discount rates used for fair value calculation. For the purposes of measurement the Group classified all balances included in loans and advances to customers as loans and receivables. Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

11 Investments

As at 31 December 2010 and 2009 investments were comprised of the following.

In millions of US Dollars	2010	2009
Debt investments available for sale	1 351	1 009
Equity investments available for sale	336	414
Investments held to maturity	324	-
Equity investments at fair value through profit and loss	97	85
Total investments	**2 108**	**1 508**

Debt investments available for sale

In millions of US Dollars	2010	2009
Russian Federation bonds	969	643
Corporate Eurobonds	238	366
Bonds of other states	76	-
Corporate bonds	39	-
Municipal bonds	29	-
Total debt investments available for sale	**1 351**	**1 009**

Russian Federation bonds are interest-bearing securities denominated in Russian Roubles and are freely tradable in the Russian Federation. As at 31 December 2010 these bonds have maturity dates ranging from January 2011 to July 2015 (2009: from January 2010 to August 2014), coupon rates from 5.8% to 12.0% p.a. (2009: from 5.8% to 12.0% p.a.) and yields to maturity from 4.15% to 7.27% p.a. (2009: from 4.3% to 8.4% p.a.), depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Euros and Russian Roubles, issued mainly by large Russian and CIS banks and companies, and freely tradable internationally. As at 31 December 2010 these bonds have maturity dates ranging from June 2011 to May 2017 (2009: from March 2010 to November 2014), coupon rates from 6.4% to 13% p.a. (2009: from 1.5% to 18.0% p.a.) and yields to maturity from 2.1% to 10.1% p.a. (2009: from 4.5% to 23.3% p.a.), depending on the type of bond issue.

As at 31 December 2010 the analysis by credit quality of debt investments available for sale was as follows:

In millions of US Dollars	Russian Federation bonds	Corporate Eurobonds	Bonds of other states	Corporate bonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)						
- limit above USD 100 million	969	-	-	-	-	969
- limit below USD 50 million	-	238	76	39	29	382
Total neither past due nor impaired debt investments available for sale	**969**	**238**	**76**	**39**	**29**	**1 351**

11 Investments (Continued)

As at 31 December 2009 the analysis by credit quality of debt investments available for sale was as follows:

In millions of US Dollars	Russian Federation bonds	Corporate Eurobonds	Total
Neither past due nor impaired (at fair value)			
- limit above USD 100 million	643	100	743
- limit from USD 50 to 100 million	-	57	57
- limit below USD 50 million	-	174	174
Total neither past due nor impaired debt investments available for sale	**643**	**331**	**974**
Individually determined to be impaired (at fair value)			
- not past due	-	35	35
Total impaired debt investments available for sale	**-**	**35**	**35**
Total debt investments available for sale	**643**	**366**	**1 009**

Equity investments available for sale

In millions of US Dollars	2010	2009
Pamplona Credit Opportunities Fund	336	317
Pamplona Capital Partners I L.P.	-	97
Total equity investments available for sale	**336**	**414**

In 2009 the Group purchased from a subsidiary of Alfa Group (Note 36) a limited partnership interest in Pamplona Capital Partners I L.P. for EUR 64.4 million (equivalent of USD 94 million) and an investment position in Pamplona Credit Opportunities Fund for EUR 209.5 million (equivalent of USD 309 million). In 2010 the Group received a capital disbursement of EUR 30.8 million (equivalent of USD 39 million) from Pamplona Capital Partners I L.P. and invested this amount in shares of Pamplona Managed Accounts Limited. During November and December 2010 the Group disposed to a subsidiary of Alfa Group its investments in Pamplona Capital Partners I L.P. and Pamplona Managed Accounts Limited for a total consideration of USD 139 million.

Pamplona Capital Partners I L.P. is a private equity fund, investing primarily in industrial companies in Europe. Pamplona Credit Opportunities Fund is a multi-strategy credit fund investing in corporate and structured credit with a European focus. These funds are managed by Pamplona Capital Management LLP, an independent investment manager. A member of the Board of Directors of Alfa-Bank is the Chief Executive Officer of Pamplona Capital Management LLP. The Group in both cases is an investor in the funds but has no involvement in the management of the funds.

Movements in investments available for sale were as follows:

In millions of US Dollars	2010	2009
Carrying amount as at 1 January	**1 423**	**532**
Acquisition	834	1 161
Disposals	(455)	(196)
Fair value gains less losses	52	85
Interest income accrued	96	52
Interest income received	(86)	(47)
Recovery / (impairment) of debt investments available for sale	2	(3)
Redemption at nominal value	(170)	(141)
Effect of exchange rates changes	3	(21)
Effect of translation to presentation currency	(12)	1
Carrying amount as at 31 December	**1 687**	**1 423**

11 Investments (Continued)

Investments held to maturity

In millions of US Dollars	2010 Fair value	2010 Carrying value
Bonds of other states	201	200
Promissory notes	66	66
Corporate Eurobonds	51	51
Municipal Eurobonds	7	7
Total investments held to maturity	**325**	**324**

Bonds of other states are interest-bearing securities issued by governments of several European countries. As at 31 December 2010 these bonds have maturity dates ranging from July 2011 to July 2014 and coupon rates from 2.5% p.a. to 5.40% p.a.

As at 31 December 2010 the analysis by credit quality of investments held to maturity was as follows:

In millions of US Dollars	Bonds of other states	Promissory notes	Corporate Eurobonds	Municipal Eurobonds	Total
Neither past due nor impaired					
- limit from USD 50 to 100 million	173	-	-	-	173
- limit below USD 50 million	27	66	51	7	151
Total investments held to maturity	**200**	**66**	**51**	**7**	**324**

There were no provisions for impairment of investments held to maturity as at 31 December 2010.

As at 31 December 2010 the fair value of investments held to maturity approximated their carrying value. Refer to Note 35.

Currency, maturity and interest rate analysis of investments is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

Gains less losses arising from investments

The table below represents an analysis of gains less losses arising from investments:

In millions of US Dollars	2010	2009
Gains less losses from equity investments designated at fair value through profit or loss	15	27
Gains less losses on disposed investments available for sale	54	(33)
Reversal of impairment on disposed investments available for sale	16	6
Recovery/(impairment) of investments available for sale	2	(3)
Total gains less losses arising from investments	**87**	**(3)**

12 Other Financial Assets

In millions of US Dollars	Note	2010	2009
Trade debtors		150	70
Receivables on operations with securities		119	34
Derivative financial instruments	34	106	63
Receivables at fair value through profit or loss		62	42
Restricted cash	33	21	-
Plastic card debtors		2	14
Other		36	51
Less: Provision for impairment		(22)	(23)
Total other financial assets		**474**	**251**

As at 31 December 2010 derivative financial instruments included USD 65 million (2009: USD 33 million) related to instruments contracted with large international banks.

Receivables at fair value through profit or loss represent rights of the Group to receive at any time during a specified period amounts approximating fair value of certain investments received by ADA (Note 36) in relation to lending operations of the Group. These receivables were designated by the Group as at fair value through profit or loss upon initial recognition.

As at 31 December 2010 receivables on operations with securities include USD 93 million balance receivable from ABH Ukraine Limited guaranteed by ABHH (Note 4).

As at 31 December 2010 the Group held margin call deposits pledged by its counterparties as collateral under transactions with derivative financial instruments and operations with securities. Refer to Notes 15 and 16.

Movements in the provision for impairment of other financial assets were as follows:

In millions of US Dollars	2010	2009
Provision for impairment as at 1 January	**23**	**13**
Provision for impairment during the year	1	22
Amounts written off during the year as uncollectible	(2)	(11)
Effect of translation to presentation currency	-	(1)
Provision for impairment as at 31 December	**22**	**23**

Analysis by credit quality of other financial assets outstanding as at 31 December 2010 was as follows:

In millions of US Dollars	Trade debtors	Receivables on operations with securities	Derivative financial instruments	Receivables at fair value through profit and loss	Restricted cash	Plastic card debtors	Other	Total
Neither past due nor impaired with credit history	73	119	106	62	-	-	16	376
Neither past due nor impaired without credit history	76	-	-	-	-	2	5	83
Not past due but impaired	-	-	-	-	21	-	-	21
Past due and impaired	1	-	-	-	-	-	15	16
Total gross other financial assets	**150**	**119**	**106**	**62**	**21**	**2**	**36**	**496**
Provision for impairment	(1)	-	-	-	(6)	-	(15)	(22)
Total other financial assets	**149**	**119**	**106**	**62**	**15**	**2**	**21**	**474**

12 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding as at 31 December 2009 was as follows:

In millions of US Dollars	Trade debtors	Receivables on operations with securities	Derivative financial instruments	Receivables at fair value through profit and loss	Plastic card debtors	Other	Total
Neither past due nor impaired with credit history	23	30	63	42	12	10	180
Neither past due nor impaired without credit history	40	4	-	-	1	26	71
Past due and impaired	7	-	-	-	1	15	23
Total gross other financial assets	**70**	**34**	**63**	**42**	**14**	**51**	**274**
Provision for impairment	(7)	-	-	-	(1)	(15)	(23)
Total other financial assets	**63**	**34**	**63**	**42**	**13**	**36**	**251**

"Entities with credit history" are those entities of which the Group is aware of their credit history over more than one year.

As at 31 December 2010 and 2009 the fair value of each class of financial assets included in other financial assets approximated their carrying value. Refer to Note 35.

For the purposes of measurement the Group classified all balances included in other financial assets, except for derivative financial instruments and receivables at fair value through profit and loss, as loans and receivables. Refer to Note 34 for information on derivative financial instruments. Currency and maturity analyses of other financial assets are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

13 Other Assets

In millions of US Dollars	**2010**	**2009**
Prepayment of current income tax	96	19
Goodwill	64	64
Prepayment of taxes, other than on income	50	96
Customer relationship	40	56
Computer software	23	21
Repossessed collateral	11	18
Banking license	3	3
Total other assets	**287**	**277**

13 Other Assets (Continued)

Movements in intangible assets during 2010 were as follows:

In millions of US Dollars	Goodwill	Customer relationship	Computer software	Banking license	Total
Carrying amount as at 1 January 2010	**64**	**56**	**21**	**3**	**144**
Cost					
Opening balance	64	77	80	3	224
Additions	-	-	16	-	16
Disposals	-	-	(1)	-	(1)
Translation movement	-	(1)	(1)	-	(2)
Closing balance	**64**	**76**	**94**	**3**	**237**
Accumulated depreciation					
Opening balance	-	21	59	-	80
Amortisation (Note 28)	-	15	12	-	27
Closing balance	**-**	**36**	**71**	**-**	**107**
Carrying amount as at 31 December 2010	**64**	**40**	**23**	**3**	**130**

Movements in intangible assets during 2009 were as follows:

In millions of US Dollars	Goodwill	Customer relationship	Computer software	Banking license	Total
Carrying amount as at 1 January 2009	**75**	**79**	**21**	**3**	**178**
Cost					
Opening balance	75	79	73	3	230
Additions	-	-	14	-	14
Adjustment of purchase price allocation	(9)	-	-	-	(9)
Disposals	-	-	(6)	-	(6)
Translation movement	(2)	(2)	(1)	-	(5)
Closing balance	**64**	**77**	**80**	**3**	**224**
Accumulated depreciation					
Opening balance	-	-	52	-	52
Amortisation (Note 28)	-	20	10	-	30
Disposals	-	-	(3)	-	(3)
Translation movement	-	1	-	-	1
Closing balance	**-**	**21**	**59**	**-**	**80**
Carrying amount as at 31 December 2009	**64**	**56**	**21**	**3**	**144**

The recoverable amount of goodwill for the purposes of impairment testing was estimated based on value in use calculation.

The information on related party balances is disclosed in Note 36.

14 Premises and Equipment

In millions of US Dollars	Premises	Leasehold improve-ments	Equipment under operating leases	Office and computer equipment	Construc-tion in progress	Total
Carrying amount as at 31 December 2009	**142**	**4**	**40**	**140**	**40**	**366**
Cost						
Opening balance	170	24	42	203	40	479
Revaluation	-	-	4	-	-	4
Additions	28	1	128	28	1	186
Disposals	(6)	(1)	(169)	(20)	(33)	(229)
Translation movement	(1)	-	-	(1)	-	(2)
Closing balance	**191**	**24**	**5**	**210**	**8**	**438**
Accumulated depreciation						
Opening balance	28	20	2	63	-	113
Depreciation (Note 28)	5	2	11	28	-	46
Disposals	-	(1)	(13)	(10)	-	(24)
Translation movement	-	-	-	(1)	-	(1)
Closing balance	**33**	**21**	**-**	**80**	**-**	**134**
Carrying amount as at 31 December 2010	**158**	**3**	**5**	**130**	**8**	**304**

Premises have been valued at fair value in December 2010 and 2009. The valuation was carried out by an independent firm of valuers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. The market value of premises was assessed using the sales comparison method.

Included in the above carrying amount is USD 38 million (2009: USD 41 million) representing revaluation surplus relating to premises of the Group. As at 31 December 2010 the carrying amount of premises would have been USD 120 million (2009: USD 122 million) had the assets been carried at cost less depreciation.

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

Equipment under operating leases represents collateral repossessed by the Group in the course of restructuring finance lease receivables and rented out under operating lease agreements.

14 Premises and Equipment (Continued)

In millions of US Dollars	Premises	Leasehold improve-ments	Equipment under operating leases	Office and computer equipment	Construc-tion in progress	Total
Carrying amount as at 31 December 2008	**202**	**10**	**-**	**133**	**45**	**390**
Cost						
Opening balance	228	34	-	240	45	547
Revaluation	(41)	-	-	-	-	(41)
Additions	15	-	42	36	5	98
Transfers	(19)	-	-	19	-	-
Disposals	(6)	(9)	-	(88)	(9)	(112)
Translation movement	(7)	(1)	-	(4)	(1)	(13)
Closing balance	**170**	**24**	**42**	**203**	**40**	**479**
Accumulated depreciation						
Opening balance	26	24	-	107	-	157
Revaluation	(1)	-	-	-	-	(1)
Depreciation (Note 28)	5	4	2	33	-	44
Disposals	(1)	(8)	-	(78)	-	(87)
Translation movement	(1)	-	-	1	-	-
Closing balance	**28**	**20**	**2**	**63**	**-**	**113**
Carrying amount as at 31 December 2009	**142**	**4**	**40**	**140**	**40**	**366**

15 Due to Other Banks

In millions of US Dollars	2010	2009
Correspondent accounts and overnight placements of other banks		
- Russian Federation	129	148
- Other countries	21	20
Term placements of CBRF	-	251
Term placements of other banks	1 221	687
Sale and repurchase agreements	726	2
Total due to other banks	**2 097**	**1 108**

As at 31 December 2010 the ten largest aggregate balances due to other banks amounted to USD 1 299 million (2009: USD 637 million) or 61.9% (2009: 57.5%) of total due to other banks, none of which (2009: USD 253 million) represented balances outstanding to the CBRF.

As at 31 December 2009 balances outstanding to CBRF were comprised of loans received under a secured lending programme in the amount of USD 251 million, secured by a pledge of loans and advances to customers in the gross amount of USD 268 million (Note 10).

As at 31 December 2010 sale and repurchase agreements were effectively secured by trading securities in the amount of USD 914 million (refer to Note 8) and trading securities purchased under reverse sale and repurchase agreements with a fair value of USD 1 million (2009: USD 3 million).

15 Due to Other Banks (Continued)

As at 31 December 2010 and 2009 the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. As at 31 December 2010 the estimated fair value of due to other banks was USD 2 097 million (2009: USD 1 108 million). Refer to Note 35.

As at 31 December 2010 included within term placements of other banks are margin call deposits in the amount of USD 38 million (2009: USD 76 million) received by the Group as collateral under transactions with derivatives and operations with securities with other banks.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

16 Customer Accounts

In millions of US Dollars	2010	2009
Commercial organisations		
- Current/settlement accounts	2 826	1 818
- Term deposits	4 755	3 970
Individuals		
- Current/demand accounts	3 595	2 901
- Term deposits	4 465	4 037
State and public organisations		
- Current/settlement accounts	10	-
- Term deposits	1 161	960
Total customer accounts	**16 812**	**13 686**

Economic sector concentrations within customer accounts were as follows:

	2010		2009	
In millions of US Dollars	Amount	%	Amount	%
Individuals	8 060	48	6 938	51
Energy and oil and gas	2 321	14	1 426	10
Finance and investment companies	1 831	11	985	7
Manufacturing	1 413	8	1 559	11
State and public organisations	1 171	7	960	7
Trade and commerce	704	4	657	5
Mass media and telecommunication	248	2	320	2
Science	-	-	69	1
Other	1 064	6	772	6
Total customer accounts	**16 812**	**100**	**13 686**	**100**

As at 31 December 2010 the aggregate balances of ten largest customers (or groups of related customers) amounted to USD 4 805 million (2009: USD 4 201 million) or 28.6% (2009: 30.7%) of the total customer accounts, of which USD 1 921 million (2009: USD 1 762 million) represented balances outstanding to Alfa Group, its associates, joint ventures and its shareholders (Note 36).

Included in customer accounts are balances in the amount of USD 15 million (2009: USD 15 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

As at 31 December 2010 included within customer accounts are margin call deposits in the amount of USD 162 million (2009: USD 162 million) received by the Group as collateral under transactions with derivatives and operations with securities with customers.

As at 31 December 2010 the estimated fair value of customer accounts was USD 16 883 million (2009: USD 13 689 million). Refer to Note 35.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

17 Debt Securities Issued

In millions of US Dollars	2010	2009
Promissory notes and domestic bonds	1 785	579
Notes maturing in 2017	985	-
Notes maturing in 2015	554	-
Euro Medium Term Notes maturing in 2012	346	346
Euro Medium Term Notes maturing in 2013	282	294
Notes issued under the DPR Programme	155	346
Total debt securities issued	**4 107**	**1 565**

Promissory notes and domestic bonds comprise of securities issued by the Group with a discount to face value or with interest accrual in Russian Roubles, US Dollars and Euros and bear an effective interest rate from 0.0% p.a. to 10.5% p.a. depending on the type of issue and currency of the security (2009: from 0.0% to 16.8% p.a.). As at 31 December 2010 these promissory notes and domestic bonds have maturity dates ranging from January 2011 to May 2025 (2009: from January 2010 to December 2014).

On 24 September 2010 the Group issued USD 1 000 million Notes with maturity date on 25 September 2017 and interest rate of 7.875% p.a. The issue proceeds net of transaction costs were equal to USD 996 million and effective rate at origination was 8.11% p.a. As at 31 December 2010 balance of notes repurchased by the Group on the market amounted to USD 32 million at amortised value.

On 18 March 2010 the Group issued USD 600 million Notes with maturity date on 18 March 2015 and interest rate of 8.0% p.a. The issue proceeds net of transaction costs were equal to USD 597 million and effective interest rate at origination was 8.29% p.a. As at 31 December 2010 balance of notes repurchased by the Group on the market amounted to USD 57 million at amortised value.

On 22 June 2004 the Group established a Euro Medium Term Note Programme ("MTN Programme") with a limit of the aggregate principal amount of outstanding notes issued under the MTN Programme of USD 1 000 million which was increased in November 2006 up to USD 2 000 million. Notes issued under MTN Programme are repayable at respective maturity dates.

Details on issuance of the debt securities under MTN Programme in millions of USD were as follows:

Currency of denomi-nation	Nominal value of the issue	Issue proceeds net of transac-tion costs	Amortised cost as at 31 December 2010	Issue date	Maturity date	Coupon per annum, payable semi-annually
USD	500	498	346	25 June 2007	25 June 2012	8.20%
USD	400	398	282	24 June 2008	24 June 2013	9.25%

In relation to Euro Medium Term Notes issued on 24 June 2008, the noteholders have a right to require redemption of the notes at the nominal value on 24 June 2011.

As at 31 December 2010 balance of notes issued under the MTN Programme and repurchased by the Group on the market amounted to USD 272 million at amortised value (2009: USD 260 million).

In 2006 the Group established a Diversified Payment Rights Secured Debt Issuance Programme, whereby notes issued under the program are collateralised by the Group's rights to funds being transferred through the Group's correspondent accounts ("DPR Programme"). The notes issued under DPR Programme are repayable by quarterly instalments. Depending on tranche, the notes are denominated in USD or EUR, have final maturity dates ranging from March 2011 to March 2012, interest payable quarterly at LIBOR + 1.6% - LIBOR + 2.0% p.a. or EURIBOR + 1.9% p.a. The Group is also required to deposit with designated banks funds covering the repayment of the next quarterly instalment for the notes issued under the DPR Programme (Note 9). As at 31 December 2010 balance of notes issued under the DPR Programme and repurchased by the Group on the market amounted to USD 48 million and EUR 29 million at amortised value (2009: USD 107 million and EUR 54 million).

The financial result from repurchase of debt securities issued is disclosed in Note 26.

17 Debt Securities Issued (Continued)

As at 31 December 2010 and 2009 the fair values of debt securities issued determined using either market price if security is quoted or estimated using valuation techniques (Note 35) if security is unquoted were as follows:

	2010		2009	
In millions of US Dollars	Fair value	Carrying value	Fair value	Carrying value
Promissory notes and domestic bonds	1 803	1 785	595	579
Notes maturing in 2017	1 007	985	-	-
Notes maturing in 2015	579	554	-	-
Euro Medium Term Notes maturing in 2012	368	346	350	346
Euro Medium Term Notes maturing in 2013	307	282	299	294
Notes issued under the DPR Programme	155	155	345	346
Total debt securities issued	**4 219**	**4 107**	**1 589**	**1 565**

Refer to Note 35 for the discount rates used for fair valuation.

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 31.

18 Syndicated and Other Debt

In millions of US Dollars	2010	2009
Loan from the State Deposit Insurance Agency maturing on 9 December 2013	190	224
Syndicated loan maturing on 14 January 2010	-	71
Syndicated and other debt	**190**	**295**

On 9 December 2008 in relation to the acquisition of OJSC Bank Severnaya Kazna the Group received a RR 7 800 million loan from the State Deposit Insurance Agency. The loan is repayable in 5 instalments: four instalments of RR 1 000 million payable on 9 December each year from 2009 to 2012 and the fifth instalment of RR 3 800 million payable on 9 December 2013. The loan is secured by loans and advances to customers in the amount of USD 158 million (2009: USD 497 million) (Note 10). Interest at rate of 6.5% p.a. is payable monthly. The Group has an option to repay this loan at any time.

As at 31 December 2010 the estimated fair value of syndicated and other debt was USD 190 million (2009: USD 295 million).

Refer to Note 35 for the discount rates used for fair value calculation. Currency, maturity and interest rate analyses of syndicated and other debt are disclosed in Note 31.

19 Subordinated Debt

In millions of US Dollars	2010	2009
Subordinated loan from VEB maturing in 2020	834	964
Subordinated loan from VEB maturing in 2019	310	345
Subordinated notes maturing in 2017 (callable 2012)	251	251
Subordinated notes maturing in 2015 (callable 2010)	-	187
Total subordinated debt	**1 395**	**1 747**

Refer to Note 4 for details of the subordinated loans from VEB. Refer to Note 21 for details of the government grant related to these loans.

19 Subordinated Debt (Continued)

On 22 February 2007 the Group issued subordinated notes in the amount of USD 300 million. The notes bear a fixed interest rate of 8.635% per annum payable semi-annually from the issuance until 22 February 2012 and a floating interest rate thereafter set at the US Treasury Rate plus 5.46% per annum payable semi-annually until maturity on 22 February 2017. The Group has an option to repay these subordinated notes at nominal on 22 February 2012. The issue proceeds net of transaction costs were equal to USD 299 million and effective interest rate at origination was 9.0% per annum. As at 31 December 2010 the Group repurchased on the market the subordinated notes maturing in 2017 with a nominal value of USD 56 million (2009: USD 56 million).

On 9 December 2005 the Group issued subordinated notes in the amount of USD 225 million. The notes bore a fixed interest rate of 8.625% per annum payable semi-annually from the issuance until 9 December 2010 and a floating interest rate thereafter was set at US Treasury Rate plus 6.3% per annum payable semi-annually until maturity on 9 December 2015. The Group had an option to repay these subordinated notes on 9 December 2010 and this option was exercised and the Group has repaid the loan in full.

The financial result from repurchase of subordinated debt is disclosed in Note 26.

As at 31 December 2010 and 2009 the fair value of subordinated debt determined using a market price if the security is quoted or estimated using valuation techniques (Note 35) for unquoted loans was as follows:

	2010		2009	
In millions of US Dollars	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**
Fair value determined using valuation techniques				
Subordinated loan from VEB maturing in 2020	834	834	964	964
Subordinated loan from VEB maturing in 2019	310	310	345	345
Fair value determined using a market price				
Subordinated notes maturing in 2017 (callable 2012)	252	251	238	251
Subordinated notes maturing in 2015 (callable 2010)	-	-	179	187
Total subordinated debt	**1 396**	**1 395**	**1 726**	**1 747**

Currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31.

20 Other Financial Liabilities

In millions of US Dollars	**Note**	**2010**	**2009**
Derivative financial instruments	34	163	174
Payable on operations with securities		78	34
Trade creditors		28	31
Provision for losses on credit related commitments	33	5	13
Plastic card and other settlements with clients		2	16
Dividends payable	22	2	-
Other		54	54
Total other financial liabilities		**332**	**322**

As at 31 December 2010 the fair value of each class of financial liabilities included in other financial liabilities approximated their carrying value. As at 31 December 2010 the estimated fair value of other financial liabilities was USD 332 million (2009: USD 322 million). Refer to Note 35.

Currency and maturity analyses of other financial liabilities are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

21 Other Liabilities

In millions of US Dollars	Note	2010	2009
Government grant	4,19	155	-
Accrued staff costs		144	100
Taxation payable, other than on income		25	13
Current income tax payable		3	5
Other provisions		-	5
Total other liabilities		**327**	**123**

22 Share Capital

	Number of shares, in units	Total share capital, in millions of US Dollars
Total share capital as at 1 January 2009	944 800 000	945
New shares issued in 2009	320 000 000	320
Total share capital as at 31 December 2010 and 2009	**1 264 800 000**	**1 265**

On 26 June 2009 the Company issued to ABHH 320 000 000 additional new ordinary shares in exchange for cash consideration of USD 320 million.

As at 31 December 2010 and 2009 authorised, issued and fully paid share capital of ABH Financial Limited comprised 1 264 800 000 ordinary shares. All shares have a nominal value of USD 1 per share and rank equally. Each share carries one vote.

In December 2010 the Company declared dividends in the amount of USD 150 million. On 31 December 2010 the amount of USD 148 million of dividends payable to ABH Russia Limited was netted against accounts receivable from ABH Russia Limited. The remaining amount of dividends payable was outstanding as at 31 December 2010.

23 Interest Income and Expense

In millions of US Dollars	2010	2009
Interest income		
Loans and advances to corporate customers	1 461	1 683
Loans and advances to individuals	491	483
Due from other banks	142	194
Trading securities and repurchase receivables	127	107
Debt investments available for sale	96	52
Debt investments held to maturity	3	-
Total interest income	**2 320**	**2 519**
Interest expense		
Term deposits of legal entities	(278)	(427)
Term deposits of individuals	(229)	(236)
Debt securities issued	(204)	(144)
Subordinated debt	(151)	(80)
Due to other banks	(62)	(419)
Current/settlement accounts	(34)	(73)
Syndicated and other debts	(14)	(23)
Other	-	(1)
Total interest expense	**(972)**	**(1 403)**
Expenses directly attributable to leasing and deposit insurance	(41)	(41)
Net margin	**1 307**	**1 075**

23 Interest Income and Expense (Continued)

Expenses directly attributable to leasing and deposit insurance include property tax and insurance costs relating to the finance lease operations which are directly attributable to finance leasing operations and regular contributions to the State Deposit Insurance Agency.

Refer to Note 36 for details of related party transactions.

24 Fee and Commission Income and Expense

In millions of US Dollars	2010	2009
Fee and commission income		
Commission on settlement transactions	276	217
Commission on cash and foreign currency exchange transactions	51	57
Agency commission on insurance operations	51	19
Commission on guarantees issued	22	15
Commission on transactions with securities	13	11
Commission from fiduciary activities	3	3
Commission for consulting services	2	7
Other	18	10
Total fee and commission income	**436**	**339**
Fee and commission expense		
Commission on settlement transactions	(81)	(54)
Commission for consulting services	(22)	(7)
Commission on transactions with securities	(6)	(12)
Commission on cash and foreign currency exchange transactions	(6)	(7)
Commission from fiduciary activities	(1)	(1)
Other	(3)	(3)
Total fee and commission expense	**(119)**	**(84)**
Net fee and commission income	**317**	**255**

Refer to Note 36 for details of related party transactions.

25 Gains Less Losses Arising from Foreign Currencies and Precious Metals

In millions of US Dollars	2010	2009
Term deals	(97)	(16)
Spot deals	(86)	(71)
Foreign exchange translation gains less losses	241	43
Results from precious metals	(1)	(7)
Total gains less losses arising from foreign currencies and precious metals	**57**	**(51)**

26 Gains Less Losses Arising from Acquisition of Own Debts

In 2010 the Group recorded loss in the amount of USD 5 million (2009: gain of USD 49 million) from acquisition of own debts. These gains and losses arise from differences in the prices of own debt instruments acquired from the market and their amortised cost derecognised on the date of acquisition. Please refer to Notes 17 and 19 for balances of own debt instruments acquired and held by the Group.

27 Other Operating Income

In millions of US Dollars	2010	2009
Gains from sale of acquired distressed receivables	25	44
Gains from sale of repossessed collateral	19	7
Rental income	13	6
Penalties received	1	8
Dividend income	1	1
Other	23	14
Total other operating income	**82**	**80**

Refer to Note 36 for details of related party transactions.

28 Operating Expenses

In millions of US Dollars	Note	2010	2009
Staff costs		488	393
Rent		74	80
Depreciation	14	46	44
Computer and telecommunications expenses		46	41
Expenses related to premises and equipment		41	43
Consulting and professional services		30	29
Amortisation of intangible assets	13	27	30
Maintenance		24	23
Advertising and marketing		20	16
Administrative expenses		16	11
Taxes other than income tax		7	10
Travel expenses		6	5
Other		17	22
Total operating expenses		**842**	**747**

Staff costs include contributions to the Russian state pension plan made by the Group for its personnel employed in Russia in the amount of USD 34 million (2009: USD 20 million). The state pension plan is classified as a defined contribution plan because the Group does not have any legal or constructive obligation to make further contributions if the state pension plan would not hold sufficient assets to pay all employee benefits relating to employees' past service. Included within staff costs are long-term bonuses in the amount of USD 43 million (2009: USD 26 million), which are payable at least one year after end of the reporting period.

Included in expenses related to premises and equipment for the year ended 31 December 2009 is negative revaluation of some of the Group's premises (in excess of the revaluation previously recorded in other comprehensive income) in the amount of USD 21 million; there was no such negative revaluation in 2010.

Refer to Note 36 for details of related party transactions.

29 Income Taxes

Income tax expense comprises the following:

In millions of US Dollars	2010	2009
Current tax	114	13
Deferred tax	33	34
Income tax expense for the year	**147**	**47**

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 20% (2009: 20%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 15% (2009: from 0% to 15%).

29 Income Taxes (Continued)

In millions of US Dollars	2010	2009
IFRS profit before tax	**700**	**124**
Theoretical tax charge at the prevailing statutory rate (2010: 20%; 2009: 20%)	140	25
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	7	7
- Income taxed at different rates	(1)	(1)
- (Income earned) / loss incurred in tax free jurisdictions	(14)	13
- Effect of change in estimates relating to deductibility of provision for loan impairment	20	-
- Unrecognised tax loss carry forwards	(5)	3
Income tax expense for the year	**147**	**47**

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement of these temporary differences is detailed below and recorded mainly at the rate of 20% (2009: 20%), except for income on state securities that is taxed at 15% and dividend income that is taxed at 9%.

In millions of US Dollars	31 December 2009	Translation movement recorded in other comprehen-sive income	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2010
Tax effect of deductible temporary differences					
Accruals	39	-	5	-	44
Tax loss carry forwards	19	-	9	-	28
Fair value adjustments on origination of financial assets	14	-	(11)	-	3
Trading securities	-	-	4	-	4
Other impairment provisions	9	-	(3)	-	6
Derivative financial instruments	16	-	(13)	-	3
Gross deferred tax asset	**97**	**-**	**(9)**	**-**	**88**
Deferred tax netted off within individual entities	(60)	-	17	-	(43)
Deferred tax asset	**37**	**-**	**8**	**-**	**45**
Tax effect of taxable temporary differences					
Premises and equipment	(40)	-	1	-	(39)
Intangible assets and other fair value adjustments	(9)	-	2	-	(7)
Investment available for sale	(10)	-	(4)	3	(11)
Investments at fair value through profit and loss	(12)	-	(2)	-	(14)
Provision for loan impairment	(90)	1	(22)	-	(111)
Other	(1)	-	1	-	-
Gross deferred tax liability	**(162)**	**1**	**(24)**	**3**	**(182)**
Deferred tax netted off within individual entities	60	-	(17)	-	43
Deferred tax liability	**(102)**	**1**	**(41)**	**3**	**(139)**
Net deferred tax liability	**(65)**	**1**	**(33)**	**3**	**(94)**

29 Income Taxes (Continued)

In millions of US Dollars	31 December 2008	Translation movement recorded in other comprehen-sive income	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2009
Tax effect of deductible temporary differences					
Accruals	14	1	24	-	39
Investments available for sale	14	(1)	(2)	(11)	-
Tax loss carry forwards	-	1	18	-	19
Fair value adjustments on origination of financial assets	-	-	14	-	14
Trading securities	6	-	(6)	-	-
Other impairment provisions	9	-	-	-	9
Derivative financial instruments	1	1	14	-	16
Gross deferred tax asset	**44**	**2**	**62**	**(11)**	**97**
Deferred tax netted off within individual entities	(20)	-	(40)	-	(60)
Deferred tax asset	**24**	**2**	**22**	**(11)**	**37**
Tax effect of taxable temporary differences					
Premises and equipment	(37)	1	(8)	4	(40)
Intangible assets and other fair value adjustments	(9)	-	-	-	(9)
Investment available for sale	-	-	(2)	(8)	(10)
Investments at fair value through profit and loss	(8)	-	(4)	-	(12)
Provision for loan impairment	(5)	(4)	(81)	-	(90)
Other	-	-	(1)	-	(1)
Gross deferred tax liability	**(59)**	**(3)**	**(96)**	**(4)**	**(162)**
Deferred tax netted off within individual entities	20	-	40	-	60
Deferred tax liability	**(39)**	**(3)**	**(56)**	**(4)**	**(102)**
Net deferred tax liability	**(15)**	**(1)**	**(34)**	**(15)**	**(65)**

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

30 Segment Analysis

The Group's reportable segments are strategic business units that offer different products and services:

- Corporate and investment banking - comprises corporate lending, leasing, corporate deposit services, trade finance operations and structured corporate lending, securities trading, debt and equity capital markets services, derivative products, corporate finance advisory services and merger and acquisition advice.

- Retail banking - comprises retail demand and term deposit services, credit and debit card services, retail lending (including consumer loans and personal instalment loans, car loans and mortgages), money transfers and private banking services.

- Treasury - comprises the Group's wholesale funding, internal funding reallocation, liquidity and risk management activities.

These segments are managed separately because each of them requires formulating a different strategy and uses different operational platforms. The Group evaluates segment performance on the basis of profit or loss before tax. Segment performance is regularly reviewed by the Group's Chief Operating Decision Maker ("CODM"). The CODM has been identified as the members of the Group's Executive Board.

Segment financial information reviewed by the CODM includes part of loans and advances to customers of Amsterdam Trade Bank N.V. and, before June 2009, JSC SB Alfa-Bank Kazakhstan (disposed in 2009), but not their results and other items in the statement of financial position. A significant portion of the loans and advances to customers and customer accounts originated by OJSC Bank Severnaya Kazna has already been transferred to Alfa-Bank and is included in segment financial information, but remaining assets, liabilities and results of OJSC Bank Severnaya Kazna are only partially included in segment information. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains financial statements of Amsterdam Trade Bank N.V. and OJSC Bank Severnaya Kazna. Such financial information overlaps with segment analysis provided internally to the CODM. Management therefore applied the core principle of IFRS 8 "Operating Segments" in determining which of the overlapping financial information sets should form the basis of operating segments. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries other than information about their loan portfolios.

The accounting policies of the operating segments are materially the same as those described in the summary of significant accounting policies except for: (i) the fair value changes in available for sale securities that are reported within the segments' profits or losses rather than in other comprehensive income; (ii) use of a transfer pricing system, (iii) different classification of certain lines of income and expenses and (iv) some balances and operations are excluded from segment analysis since they are monitored separately and on a less regular basis (including situations when balance is not allocated and related income or expense are allocated for the segment analysis and vice versa). In accordance with the transfer pricing system used by the Group funds are generally reallocated at internal interest rates set by the Treasury Department of the Group, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances.

30 Segment Analysis (Continued)

Segment information for the reportable business segments of the Group for the year ended 31 December 2010 is set out below:

In millions of US Dollars	Corporate and Investment banking	Retail banking	Treasury	Total
2010				
Segment revenues				
External revenues				
Interest income	1 489	496	138	2 123
Fee and commission income	119	317	2	438
Other operating income	102	11	1	114
Total external revenues	**1 710**	**824**	**141**	**2 675**
Interest income from other segments	347	357	1 502	2 206
Total segment revenues	**2 057**	**1 181**	**1 643**	**4 881**
Interest expense to other segments	(924)	(229)	(1 023)	(2 176)
Gains less losses from investments	99	-	(2)	97
Gains less losses from foreign currencies and precious metals	27	4	13	44
Interest expense	(234)	(220)	(491)	(945)
Provision for loan impairment	(481)	(21)	-	(502)
Fee and commission expense	(20)	(105)	(1)	(126)
Other provisions	4	-	-	4
Operating expenses	(168)	(313)	(9)	(490)
Allocated operating expenses	(70)	(89)	(8)	(167)
Segment profit before tax	**290**	**208**	**122**	**620**
31 December 2010				
Segment assets	**16 762**	**2 195**	**5 217**	**24 174**
Segment liabilities	**10 111**	**5 930**	**6 150**	**22 191**

Segment assets and liabilities are reported to the CODM net of inter-segment assets and liabilities.

30 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2009 is set out below:

In millions of US Dollars	Corporate and Investment banking	Retail banking	Treasury	Total
2009				
Segment revenues				
External revenues				
Interest income	1 582	473	82	2 137
Fee and commission income	135	188	10	333
Other operating income	78	18	-	96
Total external revenues	**1 795**	**679**	**92**	**2 566**
Interest income from other segments	422	367	1 943	2 732
Total segment revenues	**2 217**	**1 046**	**2 035**	**5 298**
Interest expense to other segments	(1 037)	(321)	(1 317)	(2 675)
Gains less losses from investments	201	-	64	265
Gains less losses from foreign currencies and precious metals	21	10	(87)	(56)
Interest expense	(295)	(213)	(783)	(1 291)
Provision for loan impairment	(430)	(124)	-	(554)
Fee and commission expense	(22)	(65)	(5)	(92)
Other provisions	26	-	-	26
Operating expenses	(159)	(276)	(11)	(446)
Allocated operating expenses	(72)	(77)	(7)	(156)
Segment profit before tax	**450**	**(20)**	**(111)**	**319**
31 December 2009				
Segment assets	**11 933**	**1 977**	**3 244**	**17 154**
Segment liabilities	**6 189**	**4 334**	**4 745**	**15 268**

A reconciliation of the revenue for reportable segments to the Group's total revenue for the year is as follows:

In millions of US Dollars	2010	2009
Segment revenues	**4 881**	**5 298**
Interest income from other segments	(2 206)	(2 732)
Subsidiary banks' external revenues	119	158
Other non-reportable segments' unallocated amounts	8	31
Differences in translation to presentation currency	10	(7)
Revenues related to the Group's business in the Ukraine (monitored separately)	10	51
Gains less losses from interest rate derivatives reported within segment revenues	5	118
Revenue from significant non-recurring transactions unallocated to segments	11	21
Total Group's revenues	**2 838**	**2 938**
Interest income	2 320	2 519
Fee and commission income	436	339
Other operating income	82	80
Total Group's revenues	**2 838**	**2 938**

30 Segment Analysis (Continued)

A reconciliation of the profit for reportable segments to the Group's total profit for the year is as follows:

In millions of US Dollars	2010	2009
Segments' profit before tax for the year	**620**	**319**
Differences in provision for loan impairment (except related to subsidiary banks)	9	195
Provision for loan impairment related to the Group's business in the Ukraine	54	(49)
Subsidiary banks' profit/(loss) before tax	57	(186)
Other non-reportable segments' unallocated results	60	(21)
Differences in translation to presentation currency	3	24
Fair value gains on revaluation of investments unallocated to segments	(1)	6
Revenue from significant non-recurring transactions unallocated to segments	11	21
Staff costs accruals unallocated to segments	(115)	(75)
Gains less losses on available for sale investments recorded in the statement of comprehensive income	2	(105)
Loss on disposal of subsidiaries unallocated to segments	-	(5)
Profit before tax	**700**	**124**

Reportable segments' assets are reconciled to total assets as follows:

In millions of US Dollars	2010	2009
Segments' assets	**24 174**	**17 154**
Items unallocated to segments:		
Assets related to subsidiary banks	2 362	2 523
Assets related to the Group's business in the Ukraine (monitored separately)	-	251
Cash on hand and settlement accounts with trading systems	643	637
Mandatory cash balances with central banks	189	150
Other financial assets	474	251
Other assets	287	277
Premises and equipment	304	366
Deferred tax asset	45	37
Total Group's assets	**28 478**	**21 646**

Reportable segments' liabilities are reconciled to total liabilities as follows:

In millions of US Dollars	2010	2009
Segments' liabilities	**22 191**	**15 268**
Items unallocated to segments:		
Liabilities related to subsidiary banks	2 410	3 133
Other financial liabilities	332	322
Other liabilities	327	123
Deferred tax liability	139	102
Total Group's liabilities	**25 399**	**18 948**

30 Segment Analysis (Continued)

Reportable segments’ interest income is reconciled to total interest income as follows:

In millions of US Dollars	2010	2009
Segments' interest income	**2 123**	**2 137**
Interest income related to subsidiary banks	119	144
Other non-reportable segments' interest income	26	6
Interest income related to the Group's business in the Ukraine	10	57
Revenue from significant non-recurring transactions unallocated to segments	-	21
Fair value adjustments related to purchase price allocation for an acquired subsidiary bank	20	36
Fair value gains less losses from interest rate derivatives reported within segment revenues	5	118
Differences in translation to presentation currency	5	3
Other	12	(3)
Total Group's interest income	**2 320**	**2 519**

Reportable segments’ interest expense is reconciled to total interest expense as follows:

In millions of US Dollars	2010	2009
Segments' interest expense	**(945)**	**(1 291)**
Interest expense related to subsidiary banks	(77)	(147)
Other non-reportable segments' interest expense	-	3
Expenses directly attributable to leasing and deposit insurance	41	41
Differences in translation to presentation currency	(1)	(11)
Other	10	2
Total Group's interest expense	**(972)**	**(1 403)**

Reportable segments’ provision for loan impairment is reconciled to total provision for loan impairment as follows:

In millions of US Dollars	2010	2009
Segments’ provision for loan impairment	**(502)**	**(554)**
Provision for loan impairment related to subsidiary banks	69	(161)
Provision for loan impairment unallocated to segments	9	210
Provision for loan impairment related to the Group’s business in the Ukraine	54	(49)
Translation movement (including related to subsidiary banks)	-	(35)
Total Group’s provision for loan impairment	**(370)**	**(589)**

Reportable segments’ operating expenses are reconciled to total Group’s operating expenses as follows:

In millions of US Dollars	2010	2009
Segments’ operating expenses and allocated operating expenses	**(657)**	**(602)**
Operating expense related to subsidiary banks	(66)	(74)
Staff costs accruals unallocated to segments	(115)	(75)
Differences in translation to presentation currency	(4)	2
Other	-	2
Total Group's operating expense	**(842)**	**(747)**

30 Segment Analysis (Continued)

The Group's revenues for external customers are analysed by products and services in Notes 23, 24 and 27.

The majority of the Group's revenues from external customers are attributed to customers domiciled in the Russian Federation. Revenues from external customers domiciled in other countries are below the threshold for separate disclosure in these consolidated financial statements.

31 Financial Risk Management

The Group systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. The Group applies across all product lines a unified risk management practice comprising credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of the Group's risk management is to achieve an optimal level of risk-return for its operations.

The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Group's exposure to internal and external risk factors other than those from financial instruments.

The Group's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification, and (iii) risk assessment, management and control.

Risk governance. The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and approving significant large exposures.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Executive Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks.

Credit, market and liquidity risks at both portfolio and transaction levels are managed and controlled through a system of Credit Committees and through the Treasury Department, the Risk Management Department, the Retail Risk Management Department and Asset and Liability Management Committee ("ALCO"). In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure. The Risk Management Department deals with credit risk for corporate clients, financial institutions, small and medium-size enterprises, mortgages along with market risk and operational risk. The Retail Risk Management Department deals with credit cards and personal instalment loans, car loans and consumer loans portfolios. The department structure now is geared to bring more focus on proactive portfolio management and bad debt management. In 2009 the Group set up the Problem Loans Department and the Problem Loans Committee to improve the workout and the collection of problem loans to corporate customers. The Problem Loans Committee considers and approves the strategy of problem loans workout. The Problem Loan Department implements the approved strategy. These units report to the Head of Corporate and Investment Banking and the Main Credit Committee.

Amsterdam Trade Bank N.V. (ATB) has its own Risk Management and Treasury Departments. For purpose of execution of operations with financial instruments Amsterdam Trade Bank N.V. follows the Investment Policy approved by its Board of Directors. The financial risk management of OJSC Bank Severnaya Kazna is performed centrally by Alfa-Bank. OJSC Bank Severnaya Kazna is not authorised to perform unilateral treasury and lending management functions.

Risk identification. Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of the Group.

31 Financial Risk Management (Continued)

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

There were no significant changes to the system of risk management in year 2010 compared to year 2009. Since the beginning of the financial crisis the Group had been modifying the risk management policies and procedures to minimize the adverse impact of the crisis on the Group's business.

Credit risk. The Group takes on exposure to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry sectors, etc. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board regularly approves limits on the level of credit risk by product, borrower and industry sectors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

The analysis by credit quality of financial assets is based on their stratification by set limits: higher limits are assigned to the counterparties whose credit quality is better.

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

The Group defines its risk appetite by approving a Lending Policy, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions. The Lending Policy sets forth the framework for monitoring exposure to credit risk, including portfolio concentration limits and definition of responsibilities. Due to the recovery in Russian economy and increasing competition on the market the Lending Policy has been slightly soften in 2010 in terms of collateral requirements for the reliable borrowers.

The Group's credit committees are responsible for approving credit exposures. Each credit committee conducts its activity based on special instructions approved by the Board of Directors.

- Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees. The ceiling of risk level is approved by the Executive Board. These committees convene weekly and their members are representatives of the Credit Department, the Risk Management Department, the Legal Department, Treasury Department and other relevant departments. The membership of the committees reflects the balanced approach to credit risk undertaken. The most material transactions above USD 100 million have to be approved by the Executive Board. In certain circumstances (for example, based on tenure or size) loans approved by the Main Credit Committee are required to be approved by the Executive Board or Board of Directors.
- The Retail Credit committee monitors the performance of the retail portfolio and trends for future consideration. The retail lending portfolio includes the following classes of loans to individuals: credit cards and personal instalment loans, car loans, consumer loans. The Retail Credit committee approves new retail credit products, effective margins on all retail products, controls the provisioning level for the retail portfolio and write offs for the retail portfolio, makes other decisions regarding retail lending. The committee convenes monthly and its members are representatives of all key retail departments of the Group.

<u>*Credit Process.*</u> In corporate wholesale lending, all transactions undergo a standardized underwriting procedure, including a thorough examination of a prospective borrower's creditworthiness, quality of proposed collateral and transaction's structure compliance with the Group's policies and limits.

31 Financial Risk Management (Continued)

The Credit Department examines a probable transaction thoroughly with special attention being paid to the analysis of financial stability, cash-flow adequacy, long-term viability, credit history, competitive position and quality of collateral. During 2010 there were no significant changes in requirements regarding the borrowers' creditability. In spite of improvements in macroeconomical environment, the borrowers' cash-flow, robustness and stability, business model viability and industry prospects were still scrupulously analysed. Based on the assessment of the transaction's and borrower's risks, an internal rating is assigned to the borrower, collateral provided and the transaction as a whole.

The rating assignment is governed by an internal rating methodology. In accordance with the internal rating methodology the transaction is assigned a rating category from I to V.

- Rating I - high quality credit transaction; the given rating is characterized by minimum credit risk of the transaction due to a great safety cushion of cash flows of the borrower and analyzed transaction combined with high quality collateral;
- Rating II - standard quality credit transaction; assignment of such rating usually means low probability of default on such transactions due to an optimal combination of quality of cash flows of the borrower and analyzed transaction and proper collateral;
- Rating III - stable quality credit transaction; assignment of such rating usually means acceptable quality of cash flows of the borrower and analyzed transaction and/or collateral;
- Rating IV - low quality credit transaction; such transactions have rather high probability of default because of their poor quality and the lack or poor quality of collateral; and
- Rating V - non-viable transaction; credit risk of the transaction is estimated as high, the incentive to grant such loans usually lie beyond the usual parity of risk and rewards. The Group does not enter into transactions with initial rating V.

The Risk Management Department reviews the analysis and the appropriateness of the ratings assignment and draws a conclusion. The conclusion of the Risk Management Department and the financial analysis of the client are given to the consideration of the relevant Credit Committee. The Credit Committees review the loan applications for approval of a credit limit on the basis of information provided. A limit is proposed to accommodate the exposure to a client within the guidelines set for maximum customer exposure and concentration limits.

For the purposes of credit risk management, the Group stratifies the loan portfolio to the following pools:

- Current loans pool includes current loans and loans technically overdue for less than 14 days.
- Watch-list loans pool includes loans overdue for less than 14 days which demonstrated deterioration of credit quality.
- Problem loans pool includes loans with signs of impairment and loans overdue for more than 14 days, which however could be partially recovered.
- Defaulted loans pool includes loans where recovery requires foreclosure of collateral, commencement of litigation procedures.

Throughout the year 2009 transaction controls were strengthened. On a quarterly basis the Risk Management Department reviewed the internal ratings of the borrowers with exposure over a certain percentage of capital. The Group limited the issue of loans to borrowers with the best internal credit quality ratings.

Due to the nature of retail business, the Retail Risk Management Department has different risk management processes. Retail lending decisions are based on acceptance through use of credit and fraud scores. The application and fraud scores are bespoke developments based on internal lending performance history. The scores are developed based on historical performance which is available only after a statistically significant number of transactions. The scores are administered in a secure automated environment, all approve/decline decisions are subject to risk determined cut offs, and no overrides are permitted. The scores are monitored for their stability and effectiveness every month and suitable amendments are made should there be a need.

31 Financial Risk Management (Continued)

In 2009 the retail lending procedures were changed as a reaction to the instability of the economic climate: tighter score acceptance cut offs for specific industry sectors; lowering credit limits and permissible debt burden ratios; and stricter verification standards before approval; stricter minimum acceptance policy criteria; curtailment of long tenure loans and more conservative assessment of cross-selling activities. In addition to this, behaviour scoring was introduced in 2010 with a view to optimise Upsell and collection process. This has enabled the bank to navigate the downturn effectively.

Monitoring. The level of credit risk exposure of the Group is subject to a monitoring process.

Exposure to credit risk is managed by the Credit Department through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Credit Department identifies potentially problematic deals using an unambiguous set of criteria to assign a problem status to a transaction, as well as escalation procedures based on problem status. Any significant exposures to a customer with a deteriorating creditworthiness are reported to and reviewed by the relevant Credit Committee.

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

Monitoring of retail portfolios is conducted by the Retail Risk Management Department every month end or earlier based on the need. Such monitoring includes tracking the following indicators: approval/decline rates across products/customer segments; delinquency (both lagged and coincident); roll rates (transition of overdue balances across various stages); contact and promise rates to track collection efficiency; vintage loss rates by product and origination; special pilot programs; sector caps identified for each of the retail portfolios; charge off rates across each of the product portfolios; recoveries for each of the product portfolios; application scorecard stability; and performance across products where such cards are used; and efficiency of the verification segmentation. Starting from 2010 the above monitoring focuses on risk adjusted margins, with a view to optimise profitability of retail portfolios.

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee, as well as situations where limits utilization is close to maximum. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with the Group's risk appetite and portfolio limit structure. Throughout the year 2010 the Group paid much attention to the workout of problem loans, which were subject to weekly reporting to the Main Credit Committee.

On a weekly basis the Committee for Collection of Corporate Overdue Loans monitors the problem loans: the perspectives of repayment, repossessing collateral, legal processes on collection cases, restructuring terms, claiming for additional collateral to secure loans.

Control. There is a control environment established in the Group, in which all of its activities relating to credit exposure are taking place. The purpose of the implemented controls is to ensure a strict adherence to the Group's policies and procedures.

The Group has implemented control mechanisms that promote the delivery of effective risk management. Such mechanisms include: (i) producing regular portfolio monitoring reports and regularly presenting those to the relevant Credit Committees, (ii) setting credit policy core principles that govern the detailed department-level policies, (iii) subjecting policies to regular review, (iv) establishing lending guidelines that provide for a disciplined and focused approach to decision-making, (v) using statistically-based decision-making techniques such as credit scoring for retail portfolios with clear understanding of risk adjusted margins, and (vi) continuous monitoring by the Risk Management Department to measure effectiveness and administer changes as required.

In order to improve the collection of loans to individuals and to control delinquencies more effectively during 2009, the Retail Risk Management Department introduced collection scorecards across different stages of collection process and implemented closer monitoring of collection cure rates within different segments.

Credit risk mitigation. The Group uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis.

31 Financial Risk Management (Continued)

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

Credit exposure is a subject of active management. Procedures are in place that ensure timely recognition and prompt reaction to transactions showing signs of deterioration. Responses include reduction of the exposure, obtaining additional collateral, restructuring, or other steps, as appropriate.

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

At a portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity concentration limit, (iv) unsecured lending limit and (v) internal rating limit. In 2010 the latter two limits were still non-obligatory but subject to monitoring and reporting. Portfolio concentration limits are set to protect against unwanted concentration risk.

The amount of the Group's maximum exposure to credit risk is reflected in the carrying value of financial assets in the consolidated statement of financial position. For issued guarantees and other credit related commitments the amount of maximum exposure to credit risk equals to the amount of commitment.

Analysis of maximum amount exposed to credit risk as at 31 December 2010 and 31 December 2009 was as follows:

In millions of US Dollars	Note	2010	2009
Cash and cash equivalents (excluding cash on hand balances)	7	2 625	1 460
Mandatory cash balances with central banks		189	150
Debt trading securities	8	1 344	1 325
Repurchase receivables relating to debt trading securities	8	909	-
Due from other banks	9	2 754	2 270
Loans and advances to customers	10	16 795	13 449
Debt investments available for sale	11	1 351	1 009
Debt investments held to maturity	11	324	-
Other financial assets	12	474	234
Cross guarantees	33	-	905
Guarantees issued	33	1 443	790
Import letters of credit	33	130	99
Total maximum amount exposed to credit risk		**28 338**	**21 691**

The above maximum exposure to credit risk is shown without consideration of any risk mitigating factors such as collateral, guarantees, hedges, etc.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

The Group manages its market risk through notional-based and risk-based limits for the Group's sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions, (ii) Investment Banking position and (iii) Treasury position. The exposure of Corporate Banking (loans, deposits, current accounts, and other non-trading operations) and Retail Banking operations to market risks is managed through the system of limits monitored by the Treasury Department. The exposure to the market risk of Investment Banking operations is managed through market value, value at risk ("VaR") limits and extreme loss limits which are set for both aggregated position of Investment Banking in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. Both the Group's proprietary and trading portfolios consist predominantly of liquid, traded securities. For content of the trading portfolio refer to Note 8. The Group's derivative operations are driven by two major factors: (i) the need of the Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (ii) customer demand, principally for foreign currency, securities and commodities derivatives.

31 Financial Risk Management (Continued)

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, fixed income, derivatives) trading desks. The overall VaR of Investment Banking is monitored on a weekly basis by the Risk Management Department. The limit for the overall 1-day, 99% confidence level VaR is USD 35 million (2009: USD 15 million). However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

During 2009 the following changes were made in market risk management: position limits review by ALCO (limits for fixed income instruments and overall VaR limit were increased) and collateral parameters review were introduced.

Equity price risk. As noted above, for the purpose of quantifying the Group's equity price risks which is attributed to Investment Banking position only, the Group uses a VaR model.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- One business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR;
- As VaR is only calculated on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day; and
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

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

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

The daily equity price VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Group were to be held unchanged for one business day.

According to the assessments made by the Group as at 31 December 2010 and 2009 VaR estimates in respect of equity price risk do not exceed USD 10 million.

31 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, the Treasury Department of the Group is responsible for the centralised management of the currency risk of the Group. ALCO sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by the Treasury Department of the Group based on the management reports provided on open currency position. The Group uses derivatives to manage current and forecast exposures resulting from foreign currencies. The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2010:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	704	1 408	1 058	12	-	3 182
Mandatory cash balances with central banks	-	148	41	-	-	189
Trading securities	475	809	59	1	82	1 426
Repurchase receivables relating to trading securities	611	285	13	-	5	914
Due from other banks	1 507	1 050	197	-	-	2 754
Loans and advances to customers	5 881	10 207	702	5	-	16 795
Investments	226	1 028	421	-	433	2 108
Other financial assets	264	142	62	6	-	474
Other assets	3	127	16	-	141	287
Premises and equipment	-	-	-	-	304	304
Deferred tax asset	-	-	-	-	45	45
Total assets	**9 671**	**15 204**	**2 569**	**24**	**1 010**	**28 478**
Liabilities						
Due to other banks	977	889	231	-	-	2 097
Customer accounts	3 138	10 553	3 104	17	-	16 812
Debt securities issued	2 277	1 623	207	-	-	4 107
Syndicated and other debt	-	190	-	-	-	190
Subordinated debt	251	1 144	-	-	-	1 395
Other financial liabilities	129	160	36	7	-	332
Other liabilities	143	181	3	-	-	327
Deferred tax liability	-	-	-	-	139	139
Total liabilities	**6 915**	**14 740**	**3 581**	**24**	**139**	**25 399**
Net balance sheet position	**2 756**	**464**	**(1 012)**	**-**	**871**	**3 079**
Net balance sheet position less fair value of foreign exchange derivatives	**2 771**	**487**	**(1 026)**	**2**	**871**	**3 105**
Derivatives (Note 34)	**(96)**	**(1 264)**	**1 312**	**22**	**-**	**(26)**
Net balance sheet and derivatives position as at 31 December 2010	**2 675**	**(777)**	**286**	**24**	**871**	**3 079**

31 Financial Risk Management (Continued)

The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2009:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	311	1 127	511	17	-	1 966
Mandatory cash balances with central banks	-	107	43	-	-	150
Trading securities	461	384	480	-	47	1 372
Due from other banks	651	842	773	4	-	2 270
Loans and advances to customers	6 703	6 023	645	78	-	13 449
Investments	344	660	5	-	499	1 508
Other financial assets	144	90	14	3	-	251
Other assets	6	95	14	-	162	277
Premises and equipment	-	-	-	-	366	366
Deferred tax asset	-	-	-	-	37	37
Total assets	**8 620**	**9 328**	**2 485**	**102**	**1 111**	**21 646**
Liabilities						
Due to other banks	170	612	244	82	-	1 108
Customer accounts	3 135	6 791	3 750	10	-	13 686
Debt securities issued	952	310	303	-	-	1 565
Syndicated and other debt	71	224	-	-	-	295
Subordinated debt	438	1 309	-	-	-	1 747
Other financial liabilities	135	103	83	1	-	322
Other liabilities	104	9	10	-	-	123
Deferred tax liability	-	-	-	-	102	102
Total liabilities	**5 005**	**9 358**	**4 390**	**93**	**102**	**18 948**
Net balance sheet position	**3 615**	**(30)**	**(1 905)**	**9**	**1 009**	**2 698**
Net balance sheet position less fair value of currency derivatives	**3 631**	**(3)**	**(1 907)**	**9**	**1 009**	**2 739**
Derivatives (Note 34)	**(910)**	**(547)**	**1 443**	**(27)**	**-**	**(41)**
Net balance sheet and derivatives position as at 31 December 2009	**2 721**	**(550)**	**(464)**	**(18)**	**1 009**	**2 698**

Derivatives represent the fair value, as at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 34.

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations (Note 4). For the purpose of currency risk sensitivity analysis the Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

- Russian Rouble zone (includes all Russian Federation subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes ABH Financial Limited and all other foreign subsidiaries operating internationally).

31 Financial Risk Management (Continued)

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the profit or loss for the year. Risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Group is excluded from the sensitivity analysis.

As the Group exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures (Note 34), in performing sensitivity analysis the Group includes its net position in other currencies into the net position in US Dollars. As at 31 December 2010 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	USD/RR	USD/EUR	EUR/RR
Russian Rouble zone	(1 384)	-	(112)
Euro zone	-	(333)	2
US Dollar zone	3 629	53	-
Total exposure	**2 245**	**(280)**	**(110)**

As at 31 December 2010 if either of USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would have affected the profit or loss for the year (pre-tax) of the Group in the following way:

In millions of US Dollars	USD/RR	USD/EUR	EUR/RR
+ 10% change in all foreign exchange rates	225	(28)	(11)
- 10% change in all foreign exchange rates	(225)	28	11

As at 31 December 2009 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	USD/RR	USD/EUR	EUR/RR
Russian Rouble zone	1 933	-	(1 118)
Euro zone	-	(404)	(5)
US Dollar zone	(1 015)	290	-
Total exposure	**918**	**(114)**	**(1 123)**

At 31 December 2009 if USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would affect the profit or loss for the year (pre-tax) of the Group in the following way:

In millions of US Dollars	USD/RR	USD/EUR	EUR/RR
+ 10% change in all foreign exchange rates	92	(11)	(112)
- 10% change in all foreign exchange rates	(92)	11	112

31 Financial Risk Management (Continued)

Interest rate risk. The Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and debt securities in issue at fixed or variable interest rates. Due to changes in interest rates, the Group's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. One of the Group's objectives is to minimize losses from unexpected negative changes in interest margins.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2010						
Total financial assets	7 875	3 783	2 647	13 022	515	27 842
Total financial liabilities	(10 414)	(5 557)	(3 277)	(5 685)	-	(24 933)
Effect of interest based derivatives	312	116	(46)	(382)	-	-
Net interest sensitivity gap as at 31 December 2010	**(2 227)**	**(1 658)**	**(676)**	**6 955**	**515**	**2 909**
31 December 2009						
Total financial assets	7 251	3 460	1 657	8 052	546	20 966
Total financial liabilities	(8 418)	(4 279)	(1 728)	(4 298)	-	(18 723)
Effect of interest based derivatives	1 242	(139)	(20)	(1 083)	-	-
Net interest sensitivity gap as at 31 December 2009	**75**	**(958)**	**(91)**	**2 671**	**546**	**2 243**

Refer to Note 34 for the information on interest rate derivatives used to manage the Group's interest rate exposure.

The Group's interest rate risk is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management unit of the Treasury Department. ALCO sets sensitivity limits in terms of "present value to 100 basis points interest rate shift" which measures the impact of a 100 basis points rise of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. ALCO sets such limits for the Group's Russian Rouble, US Dollar and Euro positions and for the Group's overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies and interest rate derivatives such as USD and RR interest swaps.

During 2009 the Treasury Department implemented additional interest rate risk measure "Earnings-at-Risk to 100 basis points interest rate shift" which measured the impact on the net interest revenue for the nearest year of a 100 basis points rise of interest rates along the various maturities on the yield curve.

For the year ended 31 December 2010, if interest rates at that date had been 100 basis points lower, with all other variables held constant, pre-tax profit would have been USD 12 million lower (2009: USD 7 million lower based on 100 basis points shift), mainly as a result of lower interest income on loans and advances to customers. Other components of equity (also pre-tax) would have been USD 9 million higher (2009: USD 9 million higher based on a 100 basis points shift), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale.

31 Financial Risk Management (Continued)

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profit for the year would have been USD 12 million higher (2009: USD 7 million higher based on 100 basis points shift), mainly as a result of higher interest income on loans and advances to customers). Other components of equity (also pre-tax) would have been USD 9 million lower (2009: USD 9 million lower based on a 100 basis points shift) lower, as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2010				2009			
In % per annum	**USD**	**RR**	**Euro**	**Other**	**USD**	**RR**	**Euro**	**Other**
Assets								
Cash balances with central banks	-	0.0	0.0	-	0.0	0.0	0.0	0.0
Correspondent accounts and overnight placements with other banks	0.1	2.9	0.1	0.0	0.2	1.7	0.1	0.1
Mandatory cash balances with central banks	-	0.0	0.0	-	-	0.0	0.0	-
Debt trading securities	8.2	9.0	9.5	3.5	6.9	11.7	3.5	-
Repurchase receivables relating to trading debt securities	7.9	9.7	6.9	-	-	-	-	-
Due from other banks	3.1	3.3	1.4	-	9.8	5.9	1.1	0.0
Loans and advances to customers	10.9	11.6	8.3	0.0	11.5	16.2	9.2	13.8
Debt investments available for sale	7.4	8.8	4.6	-	5.7	8.8	8.3	-
Investments held to maturity	6.4	-	3.7	-	-	-	-	-
Liabilities								
Due to other banks	2.1	3.5	4.2	-	2.2	8.4	3.1	1.0
Customer accounts								
- current and settlement accounts	0.1	0.3	0.7	0.2	0.3	0.5	0.1	0.0
- term deposits	2.9	6.5	4.0	0.0	4.9	9.5	4.9	3.4
Debt securities issued	8.1	7.2	4.6	-	7.2	4.6	4.3	-
Syndicated and other debt	-	6.7	-	-	2.3	6.7	-	-
Subordinated debt	8.9	7.7	-	-	9.0	9.5	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

31 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's assets and liabilities at 31 December 2010 is disclosed in table below:

In millions of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	1 646	1 374	3	157	2	3 182
Mandatory cash balances with central banks	148	41	-	-	-	189
Trading securities	1 045	51	324	5	1	1 426
Repurchase receivables relating to trading securities	868	-	46	-	-	914
Due from other banks	1 229	865	569	80	11	2 754
Loans and advances to customers	14 841	1 308	487	10	149	16 795
Investments	1 394	689	19	6	-	2 108
Other financial assets	249	126	94	5	-	474
Other assets	267	20	-	-	-	287
Premises and equipment	284	20	-	-	-	304
Deferred tax asset	45	-	-	-	-	45
Total assets	**22 016**	**4 494**	**1 542**	**263**	**163**	**28 478**
Liabilities						
Due to other banks	1 061	804	46	-	186	2 097
Customer accounts	14 360	2 077	104	35	236	16 812
Debt securities issued	1 778	2 323	-	-	6	4 107
Syndicated and other debt	190	-	-	-	-	190
Subordinated debt	1 144	251	-	-	-	1 395
Other financial liabilities	158	169	2	1	2	332
Other liabilities	322	5	-	-	-	327
Deferred tax liability	139	-	-	-	-	139
Total liabilities	**19 152**	**5 629**	**152**	**36**	**430**	**25 399**
Net balance sheet position as at 31 December 2010	**2 864**	**(1 135)**	**1 390**	**227**	**(267)**	**3 079**

31 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as at 31 December 2009 is disclosed in table below:

In millions of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	1 174	614	35	133	10	1 966
Mandatory cash balances with central banks	107	43	-	-	-	150
Trading securities	941	356	75	-	-	1 372
Due from other banks	442	1 182	320	298	28	2 270
Loans and advances to customers	12 549	216	596	8	80	13 449
Investments	859	635	-	14	-	1 508
Other financial assets	140	65	22	19	5	251
Other assets	260	17	-	-	-	277
Premises and equipment	351	15	-	-	-	366
Deferred tax asset	-	37	-	-	-	37
Total assets	**16 823**	**3 180**	**1 048**	**472**	**123**	**21 646**
Liabilities						
Due to other banks	713	271	105	8	11	1 108
Customer accounts	10 904	2 501	48	26	207	13 686
Debt securities issued	573	992	-	-	-	1 565
Syndicated and other debt	224	71	-	-	-	295
Subordinated debt	1 309	438	-	-	-	1 747
Other financial liabilities	137	176	6	1	2	322
Other liabilities	112	11	-	-	-	123
Deferred tax liability	102	-	-	-	-	102
Total liabilities	**14 074**	**4 460**	**159**	**35**	**220**	**18 948**
Net balance sheet position as at 31 December 2009	**2 749**	**(1 280)**	**889**	**437**	**(97)**	**2 698**

CIS represents the countries of the Commonwealth of Independent States, of which the Group's primary exposure is to the Ukraine and Kazakhstan.

The majority of credit related commitments were issued in favour of Russian counterparties and their offshore companies both as at 31 December 2010 and 2009.

Assets and liabilities have generally been allocated based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and premises, equipment and intangible assets have been allocated based on the country in which they are physically held.

The majority of the Group's revenues are generated from counterparties domiciled in the Russian Federation as well as substantially all of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

31 Financial Risk Management (Continued)

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

The Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratios against regulatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

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

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

The Treasury Department runs liquidity forecast models on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast. In 2009 ALCO approved an increase in the liquidity cushion, as well as increase in the limit for available for sale securities portfolio. The crisis liquidity scenario was revised to account for the higher probabilities of delays in payments on corporate and retail loans.

The table below shows liabilities as at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because the amounts in the consolidated statement of financial position are based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amounts are determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities as at 31 December 2010 was as follows:

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	1 038	419	465	200	2 122
Customer accounts - individuals	4 303	1 194	1 436	1 291	8 224
Customer accounts - other	4 838	2 616	767	716	8 937
Debt securities issued	80	1 171	683	3 069	5 003
Syndicated and other debt	1	5	39	175	220
Subordinated debt	-	34	78	2 384	2 496
Other non-derivative financial liabilities	89	57	-	23	169
Gross settled swaps and forwards:					
- inflows	(1 780)	(368)	(77)	(333)	(2 558)
- outflows	1 817	373	78	355	2 623
Net settled derivatives	31	49	3	16	99
Guarantees issued	112	361	375	595	1 443
Import letters of credit	3	78	49	-	130
Total potential future payments for financial obligations	**10 532**	**5 989**	**3 896**	**8 491**	**28 908**

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The maturity analysis of undiscounted financial liabilities as at 31 December 2009 was as follows:

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	796	144	64	122	1 126
Customer accounts - individuals	3 423	1 117	629	1 975	7 144
Customer accounts - other	3 892	2 183	708	53	6 836
Debt securities issued	84	475	213	978	1 750
Syndicated and other debt	72	6	40	222	340
Subordinated debt	-	48	265	2 783	3 096
Other non-derivative financial liabilities	89	51	-	8	148
Gross settled swaps and forwards:					
- inflows	(2 659)	(896)	(33)	(381)	(3 969)
- outflows	2 698	911	27	387	4 023
Net settled derivatives	33	52	17	32	134
Cross guarantees	-	-	905	-	905
Guarantees issued	120	196	157	317	790
Import letters of credit	15	17	4	63	99
Total potential future payments for financial obligations	**8 563**	**4 304**	**2 996**	**6 559**	**22 422**

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Treasury Department monitors expected maturities.

31 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2010 by their expected maturities as determined by the Group. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within "demand and less than 1 month" based on the Management's assessment of the portfolio's realisability. Part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to baskets with later maturities. On the basis of past experience Management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	3 182	-	-	-	-	3 182
Mandatory cash balances with central banks	189	-	-	-	-	189
Trading securities	1 426	-	-	-	-	1 426
Repurchase receivables relating to trading securities	534	-	380	-	-	914
Due from other banks	1 896	188	325	345	-	2 754
Loans and advances to customers	1 218	2 661	1 638	11 278	-	16 795
Investments	85	313	287	990	433	2 108
Other financial assets	272	74	1	127	-	474
Other assets	73	73	-	-	141	287
Premises and equipment	-	-	-	-	304	304
Deferred tax asset	-	-	-	-	45	45
Total assets	**8 875**	**3 309**	**2 631**	**12 740**	**923**	**28 478**
Liabilities						
Due to other banks	1 037	417	461	182	-	2 097
Customer accounts	3 661	4 192	2 398	6 561	-	16 812
Debt securities issued	79	1 146	651	2 231	-	4 107
Syndicated and other debt	1	5	36	148	-	190
Subordinated debt	-	33	78	1 284	-	1 395
Other financial liabilities	163	120	-	49	-	332
Other liabilities	3	42	51	231	-	327
Deferred tax liability	-	-	-	-	139	139
Total liabilities	**4 944**	**5 955**	**3 675**	**10 686**	**139**	**25 399**
Net expected liquidity gap as at 31 December 2010	**3 931**	**(2 646)**	**(1 044)**	**2 054**	**784**	**3 079**
Cumulative expected liquidity gap as at 31 December 2010	**3 931**	**1 285**	**241**	**2 295**	**3 079**	

31 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2009 by their expected maturities as determined by the Group.

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	1 966	-	-	-	-	1 966
Mandatory cash balances with central banks	150	-	-	-	-	150
Trading securities	1 372	-	-	-	-	1 372
Due from other banks	1 784	62	24	400	-	2 270
Loans and advances to customers	2 377	2 079	1 576	7 417	-	13 449
Investments	19	110	9	871	499	1 508
Other financial assets	149	94	2	6	-	251
Other assets	-	111	-	4	162	277
Premises and equipment	-	-	-	-	366	366
Deferred tax asset	-	-	-	-	37	37
Total assets	**7 817**	**2 456**	**1 611**	**8 698**	**1 064**	**21 646**
Liabilities						
Due to other banks	792	143	62	111	-	1 108
Customer accounts	3 195	3 589	1 517	5 385	-	13 686
Debt securities issued	84	468	203	810	-	1 565
Syndicated and other debt	71	6	38	180	-	295
Subordinated debt	-	47	246	1 454	-	1 747
Other financial liabilities	165	126	5	26	-	322
Other liabilities	7	65	-	51	-	123
Deferred tax liability	-	-	-	-	102	102
Total liabilities	**4 314**	**4 444**	**2 071**	**8 017**	**102**	**18 948**
Net expected liquidity gap as at 31 December 2009	**3 503**	**(1 988)**	**(460)**	**681**	**962**	**2 698**
Cumulative expected liquidity gap as at 31 December 2009	**3 503**	**1 515**	**1 055**	**1 736**	**2 698**	

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

32 Management of Capital

The Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks and debt covenants, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel I (International Convergence of Capital Management and Capital Standards dated July 1988 (as subsequently amended and updated)) of at least 8%. Capital adequacy ratio is monitored daily for compliance with the requirements set by the CBRF and monthly for other objectives of capital management.

The Group's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of investors, creditors, other market participants and to secure the future development of the Group. The CBRF establishes and monitors capital adequacy limits for Alfa-Bank and OJSC Bank Severnaya Kazna. Capital adequacy limits for Amsterdam Trade Bank N.V. are established and monitored by the Dutch Central Bank. Capital adequacy limits of Alfa Capital Holdings (Cyprus) Limited are monitored by the Cyprus Securities and Exchange Commission.

The Group plans its capital needs to be able to comply with both the central banks' requirements and Basel I with a one year horizon. The Group performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Group develops and implements measures to increase its capital base.

To ensure compliance with the capital adequacy ratios in the short run, the Group monitors use of capital by business segments. Responsibility for approval procedures and monitoring of the capital use is with the Financial Planning and Analysis Department of the Group.

The Group and Alfa-Bank are also subject to covenants stated in various loan agreements, including capital adequacy calculated in accordance with Basel I. The composition of the Group's capital which is managed by the Group's management and calculated in accordance with Basel I was as follows:

In millions of US Dollars	**2010**	**2009**
Tier 1 capital		
Paid up share capital	1 265	1 265
Retained earnings, cumulative translation reserve and non-controlling interest	1 729	1 346
Less: Goodwill	(64)	(64)
Total tier 1 capital	**2 930**	**2 547**
Tier 2 capital		
Asset revaluation reserves	85	87
Subordinated debt	1 201	1 274
Total tier 2 capital	**1 286**	**1 361**
Total capital	**4 216**	**3 908**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements during 2010 and 2009.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been recorded in these consolidated financial statements.

Tax legislation. Significant point of operations of the Group is performed in the Russian Federation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

The Group conducts some transactions which might be considered to be transactions at off-market rates. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia which contribute a significant proportion of the Group's operating results. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition to the aforementioned risks, the Group estimates that as at 31 December 2010 it had other possible obligations from exposure to other than remote tax risks of up to approximately USD 4 million (2009: USD 4 million).

33 Contingencies and Commitments (Continued)

Capital commitments. As at 31 December 2010 the Group had capital commitments of USD 23 million (2009: USD 13 million), of which USD 9 million (2009: USD 7 million) related to construction expenditure and modernisation of premises and USD 14 million (2009: USD 6 million) related to purchase and installation of new computer systems. Management has already allocated the necessary resources in respect of these commitments. Management believes that future income and funding will be sufficient to cover these and any similar commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

In millions of US Dollars	2010	2009
Not later than 1 year	52	54
Later than 1 year and not later than 5 years	71	71
Later than 5 years	14	8
Total operating lease commitments	**137**	**133**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Outstanding credit related commitments were as follows:

In millions of US Dollars	2010	2009
Guarantees issued	1 443	790
Import letters of credit	130	99
Export letters of credit	32	60
Cross guarantees	-	905
Total credit related commitments	**1 605**	**1 854**

Cross guarantees represented guarantees provided by Alfa-Bank to the CBRF in favour of other Russian banks under a special CBRF lending programme. OAO Alfa-Bank also received such guarantees for a part of its borrowings from the CBRF. As at 31 December 2010 the Group did not have loans from CBRF secured by the cross guarantees. Refer to Note 15.

The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was USD 5 million as at 31 December 2010 (2009: USD 13 million).

Movements in the provision for losses on credit related commitments were as follows:

In millions of US Dollars	2010	2009
Provision for losses on credit related commitments as at 1 January	**13**	**46**
Provision for losses on credit related commitments during the year	(8)	(32)
Effect of translation to presentation currency	-	(1)
Provision for losses on credit related commitments as at 31 December	**5**	**13**

33 Contingencies and Commitments (Continued)

Compliance with covenants. In accordance with agreements for attracting long-term financing the Group should comply with financial and non-financial covenants. The most significant covenants are:

- to comply with the ratios and requirements of the CBRF (for Alfa-Bank and OJSC Bank Severnaya Kazna);
- to maintain a ratio of capital to risk-weighted assets as defined by Basel I;
- to maintain a minimum level of net assets;
- to maintain a minimum ratio of aggregated financial indebtedness;
- to maintain certain levels of credit ratings;
- to ensure that all related party transactions are on an arm's length basis; and
- to maintain a maximum level of long-term debt securities issued.

The Group was in compliance with these covenants during 2010 and 2009.

Assets pledged and restricted. The Group had the following assets pledged as collateral:

In millions of US Dollars	Note	2010	2009
Loans and advances to customers pledged to the CBRF	10, 15	-	268
Loans and advances to customers pledged to the SDIA	10, 18	158	497
Margin call deposits	9	273	247
Trading securities classified as repurchase receivables	8, 15	914	-
Term deposits with other banks placed under the Diversified Payment Rights Secured Debt Issuance Programme	9, 17	75	77
Restricted cash	12	21	-
Total		**1 441**	**1 089**

As at 31 December 2010 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Notes 9 and 10), which the Group has the right to sell or re-pledge in the absence of default of the counterparty was USD 496 million (2009: USD 91 million). As at 31 December 2010 the fair value of such securities sold under sale and repurchase agreements with other banks amounted to USD 1 million (2009: USD 3 million).

Mandatory cash balances with central banks in the amount of USD 189 million (2009: USD 150 million) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

34 Derivative Financial Instruments

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The principal or agreed amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate contractual or principal amount of derivative financial instruments held and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward, swap contracts are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to respective reporting period.

34 Derivative Financial Instruments (Continued)

	2010			2009		
In millions of US Dollars	**Principal or agreed amount**	**Assets Positive fair value**	**Liabilities Negative fair value**	**Principal or agreed amount**	**Assets Positive fair value**	**Liabilities Negative fair value**
Deliverable forwards						
Securities						
-sale of securities	1 098	14	(21)	512	14	(24)
-purchase of securities	31	1	-	22	1	-
Non-deliverable forwards						
Securities						
-sale of securities	61	-	-	59	5	(2)
Call options						
Commodities						
-written call options	133	-	(2)	-	-	-
-purchased call options	133	2	-	-	-	-
Foreign currency						
-written call options	-	-	-	81	-	(6)
-purchased call options	-	-	-	81	6	-
Put options						
Commodities						
-written put options	100	-	(6)	-	-	-
-purchased put options	100	6	-	-	-	-
Swaps						
Interest rate swaps - pay fixed interest, receive floating interest	576	-	(25)	2 098	-	(64)
Total		**23**	**(54)**		**26**	**(96)**

34 Derivative Financial Instruments (Continued)

The table below sets out fair values, as at the end of the reporting period, of currencies receivable or payable under foreign exchange contracts and precious metals based contracts (excluding options) entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting dates.

	2010		2009	
In millions of US Dollars	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Deliverable forwards				
- USD receivable on settlement	5	625	1 031	350
- USD payable on settlement	(2 610)	(665)	(751)	(2 604)
- EUR receivable on settlement	1 863	460	404	2 335
- EUR payable on settlement	(25)	(449)	(910)	(124)
- RR receivable on settlement	551	245	245	137
- RR payable on settlement	(13)	(5)	(2)	(24)
- Other currencies receivable on settlement	275	28	121	100
- Other currencies payable on settlement	(18)	(260)	(127)	(209)
Non-deliverable forwards				
- USD receivable on settlement	1 284	5 066	2 052	906
- USD payable on settlement	(2 713)	(1 008)	(702)	(1 129)
- EUR receivable on settlement	462	35	138	935
- EUR payable on settlement	(19)	(1 047)	(1 390)	(12)
- RR receivable on settlement	1 860	1 058	425	197
- RR payable on settlement	(1 348)	(3 659)	(626)	(899)
- Other currencies receivable on settlement	568	64	186	89
- Other currencies payable on settlement	(45)	(590)	(61)	(126)
Deliverable swaps				
- USD payable on settlement	-	(80)	(63)	-
- EUR receivable on settlement	144	31	67	-
- EUR payable on settlement	-	(143)	-	-
- RR receivable on settlement	-	185	-	-
- RR payable on settlement	(138)	-	-	-
Net fair value of foreign exchange derivatives and derivatives on precious metals	**83**	**(109)**	**37**	**(78)**

As at 31 December 2009 derivative financial instruments included currency forwards with a contractual amount of USD 1 055 million which were designated and qualified as hedges of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. The total amount of the effective portion of the foreign currency exchange gains recorded during 2009 on these hedging instruments amounted to USD 61 million. No ineffectiveness was recorded in the profit or loss for 2010 and 2009 in respect of the hedge. As at 31 December 2009 the negative fair value of these hedging instruments amounted to USD 3 million. No amounts were reclassified from other comprehensive income during 2009, as there were no disposals of subsidiaries, which the hedges related to. Starting 1 July 2010 the Group decided to stop hedge accounting.

Forward positions in securities as at 31 December 2010 are summarised below. As at 31 December 2010 and 2009 the respective securities' long balance sheet positions reduced risks related to securities' short forward positions. Refer to Note 8.

34 Derivative Financial Instruments (Continued)

	2010		2009	
	Principal or agreed amount		Principal or agreed amount	
In millions of US Dollars	Sale	Purchase	Sale	Purchase
Corporate Eurobonds	621	-	346	1
Corporate bonds	213	-	177	-
Russian Federation Eurobonds	153	16	-	-
Municipal bonds	102	-	1	-
ADRs and GDRs	32	10	23	21
Corporate shares	27	5	14	-
Bonds of other states	11	-	-	-
Eurobonds of other states	-	-	10	-
Total	**1 159**	**31**	**571**	**22**

The information on transactions with related parties is disclosed in Note 36.

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 9 and 10 for the estimate fair value of due from other banks and loans and advances to customers.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair value of balances with no stated maturity is the amount repayable on demand. Refer to Notes 15 and 16 for the estimated fair values of due to other banks and customer accounts respectively. Discount rates used were consistent with the credit risk of the individual entities depending on currency and maturity of the instrument.

Syndicated and other debt. The estimated fair value of syndicated and other debt is based on discounted cash flows using interest rate of new debts with similar remaining maturity.

Debt securities issued. The fair value of traded debt has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments.

Subordinated debt. The fair value of traded subordinated debt has been determined by reference to published price quotations. Refer to Note 4 for the information about the subordinated loans from VEB.

35 Fair Value of Financial Instruments (Continued)

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. The fair value of derivative financial instruments is disclosed in Note 34.

Discount rates used in determination of fair values depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2010	2009
Due from other banks		
- Term placements	0.0 - 9.5	0.0 - 40.7
- Reverse sale and repurchase agreements	0.0 - 4.8	3.0 - 9.3
Loans and advances to customers		
- Corporate loans	6.6 - 13.7	8.0 - 21.0
- Finance lease receivables and advances on lease operations	12.4 - 22.1	18.0 - 21.0
- Loans to small and medium size enterprises	8.6 - 13.7	5.2 - 20.0
- Loans to individuals	10.2 - 29.1	12.7 - 34.2
Due to other banks		
-Correspondent accounts and overnight placements of other banks	0.0 - 2.5	0.0 - 13.3
-Term placements of other banks	0.0 - 8.5	0.0 - 16.3
-Sale and repurchase agreements with other banks	0.0 - 1.5	1.4 - 28.0
Customer accounts		
-Current/settlement accounts of corporates	0.0 - 5.0	0.0 - 13.0
-Term deposits of corporates	0.1 - 14.0	0.1 - 16.0
-Current/settlement accounts of individuals	0.0 - 3.7	0.0 - 7.2
-Term deposits of individuals	0.0 - 16.1	0.0 - 16.2
Syndicated and other loans		
- Syndicated loans	-	2.3
- Loan from SDIA	6.7	6.7
Debt securities issued (excluding quoted instruments)		
-Promissory notes and domestic bonds issued	0.0 - 10.5	0.0 - 16.8
-Notes issued under a DPR Programme	2.3 - 3.5	2.2 - 3.0

35 Fair Value of Financial Instruments (Continued)

For financial instruments carried at fair value, the levels in the fair value hierarchy, which the fair values are attributed to, were as follows:

In millions of US Dollars	2010			2009		
	Quoted prices in active markets (Level 1)	**Valuation technique with inputs obser-vable in markets (Level 2)**	**Valuation technique with signifi-cant un-obser-vable inputs (Level 3)**	**Quoted prices in active markets (Level 1)**	**Valuation technique with inputs observa-ble in markets (Level 2)**	**Valuation technique with signifi-cant un-observable inputs (Level 3)**
Financial assets						
Trading securities	***1 276***	***40***	***110***	***1 315***	***34***	***23***
- Corporate bonds	630	-	-	383	-	-
- Corporate Eurobonds	381	40	-	497	34	23
- Promissory notes	80	-	110	-	-	-
- Bonds of other states	56	-	-	-	-	-
- Eurobonds of other states	30	-	-	347	-	-
- Municipal bonds	15	-	-	1	-	-
- Russian Federation bonds	2	-	-	-	-	-
- Municipal eurobonds	-	-	-	40	-	-
- Corporate shares	44	-	-	30	-	-
- ADRs and GDRs	38	-	-	17	-	-
Repurchase receivables	***914***	***-***	***-***	***-***	***-***	***-***
- Corporate Eurobonds	442	-	-	-	-	-
- Russian Federation bonds and Eurobonds	201	-	-	-	-	-
- Corporate bonds	164	-	-	-	-	-
- Municipal bonds	102	-	-	-	-	-
- ADRs and GDRs	5	-	-	-	-	-
Debt investment securities available for sale	***1 351***	***-***	***-***	***977***	***-***	***32***
- Russian Federation bonds	969	-	-	643	-	-
- Corporate Eurobonds	238	-	-	334	-	32
- Bonds of other states	76	-	-	-	-	-
- Corporate bonds	39	-	-	-	-	-
- Municipal bonds	29	-	-	-	-	-
Equity investments available for sale	***-***	***-***	***336***	***-***	***-***	***414***
Equity investments at fair value through profit and loss	***-***	***5***	***92***	***-***	***13***	***72***
Other financial assets	***14***	***92***	***62***	***9***	***54***	***42***
Foreign exchange forward contracts	-	77	-	-	33	-
Other financial derivatives	14	15	-	9	21	-
Receivables at fair value through profit and loss	-	-	62	-	-	42
Total financial assets carried at fair value	**3 555**	**137**	**600**	**2 301**	**101**	**583**

35 Fair Value of Financial Instruments (Continued)

Methods and assumptions for valuation of financial assets included in Level 2 and Level 3 of the fair valuation hierarchy

Level 2. The fair value of financial derivatives allocated to Level 2 was determined based on the discounted cash flows (DCF) models with all significant inputs observable in the market. The fair value of securities with insignificant trading volumes is based on adjusted market quotes.

Level 3. Equity investments available for sale in the amount of USD 336 million (2009: USD 414 million) and equity investments at fair value through profit or loss in the amount of USD 6 million (2009: USD 13 million) allocated to Level 3 represent investments in funds and have been valued using the net assets values reported to the Group by the respective fund managers. These net assets values in respect of all securities held by those funds have been in all cases determined either on the basis of market quotes for the securities held by the funds where available, or on the basis of indicative quotes provided by reputable brokerage houses dealing in such unquoted securities.

The fair value of equity investments at fair value through profit or loss in the amount of USD 86 million (2009: USD 59 million) was determined by an independent professional appraiser using DCF and peer based models.

The fair value of trading securities and debt securities available for sale allocated to Level 3 was for each security determined based on indicative quotes provided by reputable brokerage houses dealing in these securities. Although the Group has own valuation models for these securities, the lack of trading and reliable information about them makes those models highly subjective and Management uses such external quotes, where available, to value these positions.

Receivables at fair value through profit and loss in the amount of USD 62 million (2009: USD 42 million) allocated to level 3 represent financial instruments valued based on the adjusted discounted cash flows (DCF) models.

Main assumptions used in the DCF models were future revenues, capital expenditures and operating costs of the investees, their weighted average cost of capital and forecasts of relevant main macroeconomic indicators. Had other reasonably possible alternative assumptions have been used for the valuation, the fair value as at 31 December 2010 of the equity investments at fair value through profit and loss with the carrying value of USD 86 million (2009: USD 59 million) valued using DCF and peer based models would have been in the range from USD 71 million to USD 108 million (2009: from USD 45 million to USD 71 million).

	2010		**2009**	
In millions of US Dollars	**Quoted prices in active markets (Level 1)**	**Valuation technique with inputs observa-ble in markets (Level 2)**	**Quoted prices in active markets (Level 1)**	**Valuation technique with inputs observa-ble in markets (Level 2)**
Financial liabilities				
Other financial liabilities	**21**	**142**	**26**	**148**
- Foreign exchange forward contracts	-	102	-	78
- Other derivative financial instruments	21	40	26	70
Total financial liabilities carried at fair value	**21**	**142**	**26**	**148**

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

35 Fair Value of Financial Instruments (Continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2010 is as follows:

In millions of US Dollars	Trading securities	Debt investments available for sale	Equity investments available for sale	Equity investments at fair value through profit or loss	Other financial assets
Fair value at 1 January 2010	**23**	**32**	**414**	**72**	**42**
Gains or losses recognised in profit or loss for the year	(3)	-	41	17	-
Gains or losses recognised in other comprehensive income	-	-	17	-	-
Acquisition	113	-	39	11	62
Disposals	-	(22)	(175)	(8)	
Redemption at nominal value	-	(10)	-	-	(42)
Coupon accrued	2	1	-	-	-
Coupon received	(2)	(1)	-	-	-
Transfers out of level 3 to level 2	(23)	-	-	-	-
Fair value at 31 December 2010	**110**	**-**	**336**	**92**	**62**
Revaluation gains less losses recognised in profit or loss for the period for assets held at 31 December 2010	**(3)**	**-**	**-**	**17**	**(8)**
Revaluation gains less losses recognised in other comprehensive income for the period for assets held at 31 December 2010	**-**	**-**	**17**	**-**	**-**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2009 is as follows:

In millions of US Dollars	Trading securities	Debt investments available for sale	Equity investments available for sale	Equity investments at fair value through profit or loss	Other financial assets
Fair value at 1 January 2009	**104**	**28**	**-**	**44**	**-**
Gains or losses recognised in profit or loss for the year	89	(3)	-	21	-
Gains or losses recognised in other comprehensive income	-	-	13	-	-
Acquisition	89	-	401	10	42
Disposals	(125)	(4)	-	(4)	-
Redemption at nominal value	(139)	(10)	-	-	-
Coupon accrued	3	4	-	-	-
Coupon received	(3)	(4)	-	-	-
Transfers into level 3 from level 2	5	21	-	1	-
Fair value at 31 December 2009	**23**	**32**	**414**	**72**	**42**
Revaluation gains less losses recognised in profit or loss for the period for assets held at 31 December 2009	**(28)**	**(8)**	**-**	**21**	**-**
Revaluation gains less losses recognised in other comprehensive income for the period for assets held at 31 December 2009	**-**	**-**	**13**	**-**	**-**

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

ABHH (Note 1) and CTF Holdings Limited (Note 1) and their subsidiaries constitute the Alfa Group. Banking transactions are entered into in the normal course of business with significant shareholders, directors, associated companies and companies with which the Group has significant shareholders in common, including other companies in Alfa Group and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Related party transactions are reflected in the tables below.

The most significant (by volume of transactions) related parties of the Group are Alfa Group, ABH Ukraine Group (a Ukrainian banking subsidiary of ABHH), TNK-BP Limited (an oil and gas company 25% owned by Alfa Group) and Alfa DA Limited.

Alfa DA Limited (''ADA'') and its subsidiaries ("ADA Group") is a sub-holding of Alfa Group established in 2009. ADA's main objective is accumulating and managing non-core assets obtained by the Group and sold to ADA in the course of restructuring of impaired loans to customers. The sale price for these non-core assets is determined by negotiations between the Group and ADA and reflects the fair value of these assets. The purchase of these assets is partially financed by the Group through loans to ADA. ADA is managed by A1 Group, a subsidiary of Alfa Group. ADA's underlying assets form the main source of repayment of liabilities to the Group.

The outstanding balances as at the end of year and income and expense items as well as other transactions for the year with related parties were as follows:

	2010				
In millions of US Dollars	**TNK-BP**	**Alfa Group, its associates and its share-holders except for ABH Ukraine Group and ADA Group**	**ADA Group and its associates**	**Key manage-ment**	**ABH Ukraine Group**
Trading securities as at the year end	**-**	**227**	**-**	**-**	**22**
Investment securities available for sale as at the year end	**11**	**22**	**-**	**-**	**4**
Investment securities through profit or loss at the year end	**-**	**2**	**-**	**-**	**-**
Correspondent accounts with other banks as at the year end	**-**	**-**	**-**	**-**	**2**
Term placements with other banks as at the year end	**-**	**47**	**-**	**-**	**33**
USD, effective contractual rate of 4.5% - 8.7%	-	40	-	-	33
EUR, effective contractual rate of 5.5%	-	7	-	-	-
Subordinated loan to PAO Alfa-Bank Ukraine in USD, effective contractual rate of 5.75%	**-**	**-**	**-**	**-**	**248**
Loans and advances to customers as at the year end (gross of provision for impairment)	**-**	**584**	**842**	**1**	**-**
RUR, effective contractual rate of 5.1% - 22.1%	-	303	457	-	-
USD, effective contractual rate of 5.3% - 20.0%	-	278	354	1	-
EUR, effective contractual rate of 6.1% - 17.9%	-	3	31	-	-

36 Related Party Transactions (Continued)

	2010				
In millions of US Dollars	TNK-BP	Alfa Group, its associates and its share-holders except for ABH Ukraine Group and ADA Group	ADA Group and its associates	Key manage-ment	ABH Ukraine Group
Provision for loan impairment as at 1 January	**-**	**-**	**(104)**	**-**	**-**
Provision for loan impairment during the year	-	(18)	(148)	-	-
Provision for loan impairment as at 31 December	**-**	**(18)**	**(252)**	**-**	**-**
Receivables as at the year end	**-**	**15**	**62**	**-**	**93**
Correspondent accounts of other banks as at the year end	**-**	**1**	**-**	**-**	**5**
Term placements of other banks as at the year end					
RUR, effective contractual rate of 6.3% - 8.5%	**-**	**5**	**-**	**-**	**-**
Customer accounts					
Current/settlement accounts as at the year end	**101**	**433**	**46**	**4**	**7**
RUR, effective contractual rate of 0.0% - 3.3%	101	107	14	2	-
USD, effective contractual rate of 0.0% - 1.5%	-	195	32	1	5
EUR, effective contractual rate of 0.0%	-	130	-	1	2
CHF, effective contractual rate of 0.0%	-	1	-	-	-
Term deposits as at the year end	**161**	**1 173**	**-**	**2**	**-**
RUR, effective contractual rate of 1.5% - 7.5%	7	110	-	-	-
USD, effective contractual rate of 0.0% - 6.6%	154	1 026	-	1	-
EUR, effective contractual rate of 1.5% - 5.8%	-	37	-	1	-
Payables as at the year end	**-**	**12**	**-**	**51**	**2**
Interest income for the year	**3**	**78**	**37**	**-**	**36**
Interest expense for the year	**(10)**	**(27)**	**-**	**-**	**-**
Fee and commission income for the year	**2**	**71**	**-**	**-**	**-**
Fee and commission expense for the year	**-**	**(7)**	**-**	**-**	**(3)**
Gains less losses arising from trading securities for the year	**-**	**1**	**-**	**-**	**-**
Gains less losses arising from trading in foreign currencies for the year	**3**	**(1)**	**-**	**-**	**-**
Other income for the year	**-**	**-**	**17**	**-**	**-**
Other expenses for the year	**-**	**(11)**	**-**	**(44)**	**-**
Guarantees issued by the Group at the year end	**28**	**52**	**-**	**-**	**8**
Guarantees received by the Group at the year end	**-**	**341**	**388**	**-**	**-**
Import letters of credit as at the year end	**-**	**2**	**-**	**-**	**32**

36 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2009 and income and expense items as well as other transactions for the year ended 31 December 2009 with related parties were as follows:

	2009				
In millions of US Dollars	**TNK-BP**	**Alfa Group, its associates and its share-holders except for ABH Ukraine Group and ADA Group**	**ADA Group and its associates**	**Key manage-ment**	**ABH Ukraine Group**
Trading securities as at the year end	**49**	**21**	**-**	**-**	**34**
Investment securities available for sale as at the year end	**11**	**21**	**-**	**-**	**-**
Correspondent accounts with other banks as at the year end	**-**	**-**	**-**	**-**	**34**
Term placements with other banks as at the year end	**-**	**3**	**-**	**-**	**291**
USD, effective contractual rate of 11.9% - 40.7%	-	-	-	-	239
EUR, effective contractual rate of 9.5% - 11.5%	-	3	-	-	52
Loans and advances to customers as at the year end (gross of provision for impairment)	**5**	**536**	**229**	**-**	**95**
RUR, effective contractual rate of 3.6% - 25.5%	5	51	24	-	-
USD, effective contractual rate of 1.6% - 15%	-	485	205	-	26
CHF, effective contractual rate of 10%	-	-	-	-	69
Provision for loan impairment as at 1 January	**-**	**-**	**-**	**-**	**-**
Provision for loan impairment during the year	-	-	(104)	-	-
Provision for loan impairment as at 31 December	**-**	**-**	**(104)**	**-**	**-**
Receivables as at the year end	**-**	**15**	**42**	**-**	**7**
Correspondent accounts of other banks as at the year end	**-**	**4**	**-**	**-**	**7**
Customer accounts					
Current/settlement accounts as at the year end	**28**	**269**	**7**	**-**	**9**
RR, effective contractual rate of 0.0% - 5.0%	26	67	6	-	-
USD, effective contractual rate of 0.0% - 1.4%	2	75	1	-	7
EUR, effective contractual rate of 0.0% - 1.4%	-	127	-	-	2
Term deposits as at the year end	**221**	**1 219**	**9**	**3**	**-**
RR, effective contractual rate of 3.0% - 16.0%	69	274	9	-	-
USD, effective contractual rate of 3.6% - 12.0%	152	875	-	3	-
EUR, effective contractual rate of 6.3% - 10.3%	-	70	-	-	-
GBP, effective contractual rate of 5.0%	-	-	-	-	-
Payables as at the year end	**-**	**7**	**-**	**32**	**-**
Interest income for the year	**6**	**102**	**11**	**-**	**48**
Interest expense for the year	**(10)**	**(31)**	**-**	**-**	**-**

36 Related Party Transactions (Continued)

	2009				
	TNK-BP	**Alfa Group, its associates and its share-holders except for ABH Ukraine Group and ADA Group**	**ADA Group and its associates**	**Key manage-ment**	**ABH Ukraine Group**
Fee and commission income for the year	**1**	**27**	**-**	**-**	**-**
Fee and commission expense for the year	**-**	**(1)**	**-**	**-**	**-**
Gains less losses arising from trading securities for the year	**-**	**(6)**	**-**	**-**	**(36)**
Gains less losses arising from trading in foreign currencies for the year	**3**	**2**	**-**	**-**	**16**
Other income for the year	**-**	**1**	**-**	**-**	**-**
Other expenses for the year	**-**	**(15)**	**-**	**(35)**	**-**
Guarantees issued by the Group at the year end	**57**	**8**	**-**	**-**	**-**
Guarantees received by the Group at the year end	**-**	**-**	**419**	**-**	**-**
Import letters of credit as at the year end	**-**	**-**	**-**	**-**	**9**

Key management of the Group represents members of the Board of Directors and Executive Board of the Group and Alfa-Bank. Key management compensation is presented below:

In millions of US Dollars	**31 December 2010**	**31 December 2009**
Key management compensation accrued as at the reporting date	**51**	**32**
Bonuses	**51**	**32**
- short-term bonuses	13	15
- long-term bonuses	38	17
Key management compensation expense for the year	**44**	**35**
Salaries	8	6
Bonuses	**36**	**29**
- short-term bonuses	13	15
- long-term bonuses	23	14

Short-term bonuses represent bonuses payable immediately or shortly after they are accrued, while long-term bonuses represent bonuses payable more than 12 months after the end of the year in which the employee rendered service.

As at 31 December 2010 liabilities of the Group classified as "Alfa Group, its associates and its shareholders except for ABH Ukraine Group and ADA group" included USD 56 million (2009: USD 64 million) of third parties funds managed by subsidiaries of CTFH.

Also, refer to Note 22 for the information on dividends declared by the Company, to Note 11 for the information on transactions with investments performed with related parties, and to Notes 9 and 12 for the information on balances guaranteed by the shareholders of the Group.

37 Subsequent Events

In February 2011 the Group issued Rouble-denominated bonds with a total nominal value of RUR 5 000 million (USD 172 million), interest rate of 8.25% and maturity in five years. According to the issue terms the Group has the right to amend interest rate or offer a full redemption in three years time.

On 4 April 2011 the Company was registered as a company continuing in the Republic of Cyprus.

In March 2011 Alfa-Bank started the legal merger with OJSC Bank Severnaya Kazna (Note 1). As a result of the procedure, which is due to be completed in 2011, OJSC Bank Severnaya Kazna will cease to exist as a separate legal entity and all its assets and liabilities will be transferred to Alfa-Bank.

ABH Financial Limited

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2009

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INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying consolidated financial statements of ABH Financial Limited and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

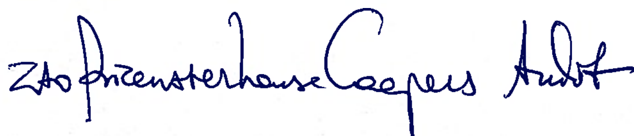
3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



23 April 2010
Moscow, Russian Federation

In millions of US Dollars	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	7	1 966	3 860
Mandatory cash balances with central banks		150	79
Trading securities	8	1 372	588
Repurchase receivables relating to trading securities	8	-	151
Due from other banks	9	2 270	1 837
Loans and advances to customers	10	13 449	17 970
Investments	11	1 508	372
Repurchase receivables relating to investments	11	-	215
Other financial assets	12	251	1 195
Other assets	13	277	371
Premises and equipment	14	366	390
Deferred tax asset	29	37	24
TOTAL ASSETS		**21 646**	**27 052**
LIABILITIES			
Due to other banks	15	1 108	7 407
Customer accounts	16	13 686	12 582
Debt securities issued	17	1 565	2 391
Syndicated and other debt	18	295	1 064
Subordinated debt	19	1 747	464
Other financial liabilities	20	322	833
Other liabilities	21	123	110
Deferred tax liability	29	102	39
TOTAL LIABILITIES		**18 948**	**24 890**
EQUITY			
Share capital	22	1 265	945
Fair value reserve for investments available for sale		54	(45)
Revaluation reserve for premises		33	53
Cumulative translation reserve		(304)	(359)
Retained earnings		1 647	1 554
Net assets attributable to the Company's owners		**2 695**	**2 148**
Non-controlling interests		3	14
TOTAL EQUITY		**2 698**	**2 162**
TOTAL LIABILITIES AND EQUITY		**21 646**	**27 052**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 23 April 2010 and any further changes require approval of this body.

The notes set out on pages 5 to 93 form an integral part of these consolidated financial statements.

In millions of US Dollars	**Note**	**2009**	**2008**
Interest income	23	2 519	2 824
Interest expense	23	(1 403)	(1 406)
Expenses directly attributable to leasing and deposit insurance	23	(41)	(37)
Net margin		**1 075**	**1 381**
Provision for loan impairment	9, 10	(589)	(956)
Net margin after provision for loan impairment		**486**	**425**
Fee and commission income	24	339	421
Fee and commission expense	24	(84)	(80)
Gains less losses arising from trading securities		173	(42)
Gains less losses arising from interest based derivatives		(118)	116
Gains less losses arising from foreign currencies and precious metals	25	(51)	281
Gains less losses arising from investments	11	(3)	(23)
Gains arising from acquisition of own debts	26	49	139
Other provisions	12, 13, 21, 33	5	(53)
Loss of disposal of subsidiaries	1	(5)	-
Other operating income	27	80	79
Operating expenses	28	(747)	(813)
Share of results and impairment of associates		-	(49)
Profit before tax		**124**	**401**
Income tax expense	29	(47)	(171)
Profit for the year		**77**	**230**
Other comprehensive income:			
Available for sale investments:			
- Fair value gains less losses during the year	11	85	(61)
- Reclassification adjustments for losses included in profit or loss	11	33	5
Revaluation of premises	14	(19)	(5)
Effect of translation of the financial statements to US Dollars as presentation currency		(6)	(390)
Net change in hedge of net investment in foreign operations	34	61	249
Share of other comprehensive income of associates		-	(1)
Income tax recorded directly in other comprehensive income	29	(15)	15
Other comprehensive income/(loss) for the year		**139**	**(188)**
Total comprehensive income for the year		**216**	**42**
Profit is attributable to:			
The Company's owners		88	230
Non-controlling interests		(11)	-
Profit for the year		**77**	**230**
Total comprehensive income is attributable to:			
The Company's owners		227	43
Non-controlling interests		(11)	(1)
Total comprehensive income for the year		**216**	**42**

The notes set out on pages 5 to 93 form an integral part of these consolidated financial statements.

In millions of US Dollars	Attributable to the Company's owners						Non-controlling interests	Total equity
	Share capital (Note 22)	**Fair value reserve for investments available for sale**	**Revaluation reserve for premises**	**Cumulative translation reserve**	**Retained earnings**	**Total**		
Balance as at 1 January 2008	**695**	**-**	**57**	**(218)**	**1 321**	**1 855**	-	**1 855**
Total comprehensive income for the year	-	(45)	(1)	(141)	230	43	(1)	42
Realised revaluation reserve	-		(3)	-	3	-	-	-
Business combinations (Note 37)	-	-	-	-	-	-	15	15
Share capital contribution	250	-	-	-	-	250	-	250
Balance as at 31 December 2008	**945**	**(45)**	**53**	**(359)**	**1 554**	**2 148**	**14**	**2 162**
Total comprehensive income for the year	-	99	(15)	55	88	227	(11)	216
Realised revaluation reserve	-	-	(5)	-	5	-	-	-
Share capital contribution	320	-	-	-	-	320	-	320
Balance as at 31 December 2009	**1 265**	**54**	**33**	**(304)**	**1 647**	**2 695**	**3**	**2 698**

The notes set out on pages 5 to 93 form an integral part of these consolidated financial statements.

In millions of US Dollars	Note	2009	2008
Cash flows from operating activities			
Interest received		2 448	2 837
Interest paid, other than on debt securities issued, syndicated and other debt and on subordinated debt		(1 222)	(1 071)
Expense directly attributable to the lending operations		(42)	(36)
Fees and commissions received		354	420
Fees and commissions paid		(87)	(81)
Net income received from trading securities		240	(169)
Net income received from trading in foreign currencies		228	(507)
Net income received from interest rate derivatives		48	(6)
Other operating income received		95	45
Staff costs paid		(360)	(453)
Other operating expenses paid		(289)	(329)
Income tax paid		(25)	(117)
Cash flows from operating activities before changes in operating assets and liabilities		**1 388**	**533**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with central banks		(71)	193
Net (increase)/decrease in trading securities and repurchase receivables		(586)	141
Net increase in due from other banks		(510)	(96)
Net decrease/(increase) in loans and advances to customers		3 628	(4 307)
Net decrease in other assets and other financial assets		102	45
Net (decrease)/increase in due to other banks		(5 980)	5 306
Net increase in customer accounts		1 432	1 076
Net decrease in other liabilities and other financial liabilities		(127)	(106)
Net cash (used in)/from operating activities		**(724)**	**2 785**
Cash flows from investing activities			
Acquisition of investments available for sale	11	(1 161)	(421)
Proceeds from disposal of investments available for sale	11	337	13
Acquisition of investments at fair value through profit or loss		(10)	(6)
Disposal of investments at fair value through profit or loss		8	14
Proceeds from disposal of investment property		-	53
Acquisition of premises, equipment and intangible assets	13,14	(65)	(68)
Proceeds from disposal of premises, equipment and intangible assets	13,14	18	10
Proceeds from disposal of subsidiaries, net of cash disposed of	1	(60)	-
Acquisition of subsidiaries, net of cash acquired	37	-	(104)
Dividend income received	27	1	3
Net cash used in investing activities		**(932)**	**(506)**
Cash flows from financing activities			
Share capital contribution	22	320	250
Proceeds from syndicated and other debt	18	-	578
Repayment of syndicated and other debt	18	(749)	(885)
Interest paid on syndicated and other loans	23	(22)	(61)
Proceeds from debt securities issued	17	538	815
Repayment of debt securities issued	17	(1 384)	(1 321)
Interest paid on debt securities in issue	23	(155)	(234)
Proceeds from subordinated debt		1 308	-
Repayment of subordinated debt		(18)	(35)
Interest paid on subordinated debt	23	(72)	(46)
Net cash used in financing activities		**(234)**	**(939)**
Net (decrease)/increase in cash and cash equivalents		**(1 890)**	**1 340**
Cash and cash equivalents at the beginning of the year	7	3 860	2 634
Effect of exchange rate changes on cash and cash equivalents		(4)	(114)
Cash and cash equivalents as at the end of the year	**7**	**1 966**	**3 860**

The notes set out on pages 5 to 93 form an integral part of these consolidated financial statements.

1 Introduction

ABH Financial Limited (the "Company"), a limited liability company registered in the British Virgin Islands, and its subsidiaries (the "Group") comprise three main business segments: corporate and investment banking, retail banking and treasury operations (Note 30). The corporate banking, retail banking and treasury operations of the Group are carried out principally by Open Joint Stock Company Alfa-Bank ("Alfa-Bank") and its subsidiaries. The investment banking activities of the Group are carried out mainly by Alfa Capital Holdings (Cyprus) Limited together with certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation.

The Company is wholly owned by ABH Russia Limited (Cyprus), which is in turn a wholly owned subsidiary of ABH Holdings S.A. ("ABHH"), a Luxembourg registered company, owned by six individuals. Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Controlling Shareholders") collectively control and own a 77.86% interest in ABHH. None of the Controlling Shareholders individually controls and/or owns a 50% or more interest in ABHH. The Controlling Shareholders have entered into an agreement to vote as if they were a single shareholder in relation to all matters relating to ABHH.

With effect from 31 December 2009, ABHH has re-domiciled from the British Virgin Islands to Luxembourg, and has changed its name from ABH Holdings Corp. to ABH Holdings S.A. The registered office of ABH Holdings S.A. has changed to 3 Boulevard du Prince Henri, L-1724 Luxembourg, Grand Duchy of Luxembourg.

As at 31 December 2009 the Group had 326 offices (including branches, regional branches and outlets), most of which were operated by Alfa-Bank (2008: 364 offices).

Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank, corporate and retail loans and deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles ("RR") and foreign currencies to its customers. Alfa-Bank participates in the State deposit insurance scheme. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 0.7 million per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities. Alfa-Bank's major subsidiaries comprise Amsterdam Trade Bank N.V. (Netherlands) and OJSC Bank Severnaya Kazna (Russian Federation).

On 29 June 2009 the Company signed a call option agreement with ABHH, its controlling shareholder, whereby in exchange for an option premium of USD 63 million ABHH received a right to acquire for a fixed consideration, and at any time until 29 June 2014, shares representing a 100% interest in JSC SB Alfa-Bank Kazakhstan. This agreement effectively transferred to ABHH all potential voting rights and economic benefits relating to JSC SB Alfa-Bank Kazakhstan. The Group accounted for this transaction as a disposal of its interest in JSC SB Alfa-Bank Kazakhstan and recorded a loss on disposal of USD 5 million. At the time of disposal, the total assets of JSC SB Alfa-Bank were USD 268 million, of which cash and cash equivalents comprised USD 118 million, and total liabilities were USD 200 million.

Alfa-Bank's registered office is located at 27 Kalanchyovskaya Street, Moscow 107078, Russian Federation. Alfa-Bank's principal place of business is 9 Mashi Poryvaevoy Street, Moscow 107078, Russian Federation.

The Company is the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking business including proprietary trading and brokerage activities, investment and merchant banking and asset management. Alfa Capital Holdings (Cyprus) Limited is regulated by the Cyprus Securities and Exchange Commission and licensed principally for brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus.

Alfa Capital Holdings (Cyprus) Limited is registered at Elenion Building, 5 Themistocles Dervis Street, 2nd floor, CY-1066 Nicosia, Cyprus.

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Despite strong economic growth in recent years, the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008.

The global financial crisis has had a severe effect on the Russian economy:

- Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
- The rise in Russian and emerging market risk premia resulted in a steep increase in foreign financing costs.
- The depreciation of the Russian Rouble against foreign currencies increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

A number of measures have been undertaken to support the Russian financial markets, including the following:

- In October 2008 the CBRF raised the guarantee repayment of individual deposits under the State deposit insurance coverage to RR 700 thousand per individual in case of the withdrawal of a license of a bank or an imposed moratorium on payments by the CBRF.
- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.
- The CBRF made significant placements to the leading Russian banks collateralised by guarantees issued by third party banks.
- The CBRF provided additional liquidity through regular unsecured finance auctions.
- Vnesheconombank provided subordinated loans financed by the State to the leading Russian banks.

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group. The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The market in Russia for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

The fair values of instruments quoted in active markets are based on current bid prices (financial assets) or current offer prices (financial liabilities). As a result of recent volatility in the financial markets there are no longer regularly occurring transactions on an arm' length basis for certain instruments and, as such, in the opinion of management certain instruments are no longer quoted in an active market. If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. Determining fair value requires consideration of current market conditions, including the relative liquidity of the market and current credit spreads. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

2 Operating Environment of the Group (Continued)

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings or deposits and re-finance its existing borrowings or deposits at terms and conditions similar to those applied to earlier transactions.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to reliably determine the effects on the Group's future financial position of any potential further deterioration in liquidity of the financial markets and increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available for sale financial assets and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Note 5).

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies' law in their respective jurisdictions. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

Presentation currency. These consolidated financial statements are presented in millions of US Dollars. The US Dollar has been selected as the presentation currency of the Group as US Dollar is the currency which Management of the Group uses to manage business risks and exposures, and measure the performance of its businesses. US Dollar amounts should not be construed as a representation that Russian Rouble amounts have been or could have been converted to US Dollars at the rates specified further in this Note.

Functional currencies. Different entities within the Group may have different functional currencies, based on the underlying economic conditions of their operations. In particular, OJSC Alfa-Bank and OJSC Bank Severnaya Kazna have Russian Roubles as their functional currency, as their activities are mostly based in the Russian Federation and are dependent on the condition of the Russian economy. Amsterdam Trade Bank N.V. has Euro as its functional currency, as its activities are mostly based in Europe and are dependent on the condition of the economy in Europe. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currency, as their operations are managed in US Dollars and the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble). Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under "Foreign Currency Translation" section of this note.

Consolidated financial statements. Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies usually accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

3 Summary of Significant Accounting Policies (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired (measured at the date of exchange) is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in profit or loss for the year.

Intercompany transactions, balances and unrealised gains on the transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interests is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interests form a separate component of the Group's equity.

Associates. Associates are entities over which the Bank has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated profit or loss for the year (as share of profits of associates), and its share of other post-acquisition movements are recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency translation. Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end exchange rates are recognised in profit or loss for the year. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each Group entity (none of which is in a hyperinflationary economy) are translated into US Dollar as presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

The income and expenses of each Group entity for the nine months ended 30 September 2008 were translated at the average rate for this period, each consecutive month's income and expenses (October-December 2008) were translated at average rates for the corresponding month due to the increased volatility in the exchange rates in the last months of 2008.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

As at 31 December 2009 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.2442 (2008: USD 1 = RR 29.3804), the average exchange rate was USD 1 = RR 31.7231 (2008: USD 1 = RR 24.8553).

Financial Instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost, as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The most recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in the consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in a significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating the interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy within this note).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory cash balances with central banks. Mandatory balances with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and other local central banks, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within three months.

Trading securities are carried at fair value. Interest earned on trading securities, calculated using the effective interest method, is presented in profit or loss for the year as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss for the year as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks, with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. The Group assesses at each reporting period date whether there is objective evidence that a financial asset or group of financial assets are impaired. Impairment losses are recognised in profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. This assessment is carried out individually on financial assets that are considered individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets for collective assessment. The primary factors that the Group considers whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- delinquency in contractual payments of principal and interest except delay caused by the settlement systems;
- breach of loan covenants or conditions;
- the borrower experiences significant financial difficulty as evidenced by the borrower's financial information that Management obtains;
- initiation of bankruptcy proceedings or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- there are significant changes in the borrower's management structure which is likely to cause late payment or no payment;
- third party actions: legal and/or tax claims against the borrower (guarantor, underwriter), arrest or seizure of the borrower's (guarantor's, underwriter's) property including property pledged with the Group;
- any encumbrance of the borrower's property (pledge, rent, trust management, etc.) without the Group's written approval, where required;
- damage or loss of collateral obtained;
- disablement or death of the borrower (guarantor, underwriter) or business owner (more than 50% of share capital);
- change of the borrower's (guarantor's, underwriter's) place of residence and/or place of work without written notice sent to the Group;
- there is reliable information that the borrower (guarantor, underwriter) or business owner (more than 50% of share capital) is missing or has been abroad for more than 1 year;
- the borrower (guarantor, underwriter) or business owner (more than 50% of share capital) is imprisoned or arrested;
- termination or change of the borrower's commercial activity.

The estimated period between a loss occurring and its identification is determined by Management for each identified portfolio, based on analysis of historical data. For the purposes of a collective impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets including accrued interest are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Necessary procedures to recover the asset include: (i) sending a notification on the repayment of debt to the borrower and the surety, (ii) negotiations with the borrower's management and owners, (iii) analysing liquidity of the borrower's assets, which can be foreclosed to settle the debt, (iv) review condition of the pledged property, (v) submitting legal claims through the courts, and (vi) sale of foreclosed property. Loans to individuals are written off after 180 days of non-payment except for mortgage loans which are written off after 540 days of non-payment.

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. These assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these asset categories.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation). Accounting policy for associates is applied to repossessed shares where the Group obtains significant influence but not control. Cost of the investment in associate is the fair value of the loan settled by taking possession of the pledged shares.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer does not meet its obligations to third parties and carry the same credit risk as loans. Credit related commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

Investments available for sale. This classification includes investments which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investments available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available for sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from other comprehensive income to profit and loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are recognised in profit and loss when incurred as a result of one or more events that occurred after the initial recognition. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss - is reclassified from other comprehensive income to profit and loss for the year. Impairment losses on equity instruments are not reversed and subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investments designated at fair value through profit or loss at inception. Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Board of Directors.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. Securities sold under sale and repurchase agreements are not derecognised. The corresponding liability is presented within amounts due to other banks or customer accounts depending on counterparty. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell are recorded as due from other banks or loans and advances to customers as appropriate.

Securities lent to counterparties are retained in the consolidated financial statements in their original category in the statement of financial position unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in profit or loss for the year. The obligation to return them is recorded at fair value as a trading liability.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3 Summary of Significant Accounting Policies (Continued)

Premises and equipment. Equipment is stated at cost less accumulated depreciation and provision for impairment, where required.

Premises of the Group are subject to revaluation on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting period date. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised (i.e. as the asset is used by the Group). The amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated statement of financial position at their estimated fair value at the date of acquisition of the acquired subsidiary, being their cost to the Group.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to profit or loss for the year, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in profit or loss for the year. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by comparing their carrying amount with the sale proceeds and are recognised in profit or loss for the year.

Customer relationship. Customer relationship includes relationships with the corporate and individual customers which kept current accounts with the bank at the time of the business combination. Customer relationship is amortised on a diminishing balance basis reflecting the pattern in which the asset's future economic benefits are expected to be consumed.

Computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Internal development costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises	2% per annum;
Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Leasehold improvements	over the term of the underlying lease;
Equipment under operating lease	10% per annum.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

3 Summary of Significant Accounting Policies (Continued)

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the gross investment in the lease. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the year.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities issued. Debt securities issued include promissory notes, bonds, commercial paper and term notes. Promissory notes issued by the Group have a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Debt securities are stated at amortised cost.

If the Group purchases its own debt securities issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

Syndicated loans. Syndicated loans are loans in which a group of financial institutions provides funds to the Group. Syndicated loans are carried at amortised cost.

Subordinated debt. Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Acquired own subordinated notes are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recorded in profit or loss for the year as gains less losses arising from acquisition of own debts.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the loans provided by the State at rates below market are recorded as deferred income and are credited to profit or loss for the year using a method achieving matching with respective expenses or losses. Such government grants are initially measured as the difference between the proceeds and the initial fair value of the loan, net of transaction costs.

Dividends. Dividends are recorded in equity in the period in which they are approved by the shareholders of the Company. Dividends that are declared after the end of the reporting period are disclosed as subsequent events.

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in profit or loss for the year in gains less losses arising from foreign currencies and precious metals and gains less losses arising from trading securities, depending on the related contracts, unless the derivatives qualify as hedging instruments.

3 Summary of Significant Accounting Policies (Continued)

The Group designates certain derivatives as hedge of a part of the net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges of net investment in foreign operations are recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in profit or loss for the year.

Accumulated gains or losses are recycled from other comprehensive income to profit or loss for the year in the periods when the hedged item is disposed of.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted at the end of the reporting period which are expected to apply when the temporary difference reverses are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Income and expense recognition. Interest income and expense are recorded in profit or loss for the year for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Revenues from the assignment of film rights for a fixed fee under non-cancellable contracts where the Group has no remaining obligations to perform are recognised at the time of sale and are included in other operating income.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Expenses directly attributable to leasing and deposit insurance. Expenses directly attributable to leasing and deposit insurance comprise of property tax and insurance costs relating to the leased assets as well as contributions paid to the State Deposit Insurance Agency. These expenses are not incremental transaction costs that would have to be recognized as part of the effective interest rate.

Property tax and insurance costs relating to the leased assets are not subject to deduction from or offsetting with the minimum lease payments receivable because they are not reimbursable to the lessor. The lease contract has an option for the lessor to change lease payments if property tax, insurance, and borrowing costs change, but there is no obligation to do so, and the lessor has a primary responsibility for the payment of insurance and property tax.

Contributions paid to the State Deposit Insurance Agency are not linked to particular customer deposits or deposit products.

Fiduciary assets. The Group commonly acts as trustee and in other fiduciary capacities that result in the holding of assets on behalf of individuals and institutions. These assets and liabilities arising thereon are excluded from the consolidated financial statements, as they are not assets and liabilities of the Group. For the purposes of disclosure fiduciary activities do not encompass safe custody function. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount which are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in accordance with the existing employee compensation plans. Discretionary employee compensations are subject to Management's approval and are disclosed within staff costs. Accrued staff costs if finally not approved are reversed through profit and loss.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

In millions of US Dollars	**2008 (before reclassification)**	**Reclassification**	**2008 (as presented)**
Consolidated statement of comprehensive income			
Gains less losses arising from trading securities	74	(116)	(42)
Gains less losses arising from interest based derivatives	-	116	116

Management carried out these reclassifications relating to the prior year figures reported in the consolidated financial statements in order to provide better information to the users of the financial statements.

In addition, during 2009 the Group improved its methodology for calculation of past due leasing balances and, to ensure comparability of the information, reclassified leasing balances in the amount of USD 769 million outstanding as at 31 December 2008 from current and not impaired loans to past due but not impaired loans. Refer to Note 10.

The revised IAS 1 which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ("opening statement of financial position"), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. Therefore, an entity that makes such a prior period adjustment or reclassification normally presents, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

As detailed above in 2009, the Group made reclassifications that have not impact on the consolidated statement of financial position. IAS 1 suggests that the opening statement of financial position should be presented even if the restatements have an impact only on the other primary statements. In these circumstances, management considered whether omitting the opening statement of financial position as at 1 January 2008 would represent a material omission of information. In management's opinion, the omission of the opening consolidated statement of financial position, where the restatement or reclassification does not affect any consolidated statement of financial position (and that fact is disclosed), is not material and is therefore permitted. Management considered that materiality of an omission is measured against its ability to influence the economic decisions of the users of the financial statements.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Impairment of loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of USD 150 million (2008: USD 119 million), respectively.

Fair value of financial instruments. The fair values of financial instruments that are not quoted in active markets are determined using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require the Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Refer to Note 35.

Due to instability in money and foreign exchange markets as at the end of 2008, different OTC market makers provided a wide spread of yield curves for selected currencies. Changing applied yield curves by +/- 10% would have resulted in increase or decrease in fair value of derivatives in foreign currencies and gains less losses from foreign currencies by USD 22 million. In 2009 the situation stabilized, and changing applied yield curves in a similar manner would not result in a significant change in gains less losses from foreign currencies.

Income taxes. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain (Note 33). The Group records liabilities for completed and anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the current and deferred taxation in the period in which such determination is made.

Management applies its judgement in interpretation of existing tax legislation for the purposes of assessment of current and deferred taxation. Also, Management uses judgement to assess the realisability of deferred tax assets, which is subject to availability of profits and other circumstances, including the ability to claim full deduction of the expenses incurred in relation to the underlying assets and liabilities. Management reassesses current and deferred tax balances at each reporting date and adjusts them accordingly.

During 2008 the Russian tax authorities performed a tax audit of Alfa-Bank's operations for 2005-2006 and challenged the Group's interpretation and application of the tax legislation relating to deductibility for tax purposes of certain provisions for loan impairment. As a result, in 2008 the Group paid additional taxes for 2005-2006 and related fines in the amount of USD 38 million. Also, during 2008 the Group reassessed its estimates relating to deductibility of similar provisions for loan impairment in the periods subsequent to 2006 and (i) increased its current tax liabilities related to 2007 by USD 25 million and (ii) released deferred tax assets in the amount of USD 65 million which were recorded in prior periods.

Management believes that the previous assessment of deductibility for tax purposes of the above provisions for loan impairment was based on the best information then available including existing industry practices and results of previous tax audits.

This change in estimate was recorded through profit or loss for the year for 2008. See Note 29.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities. Specifically, in determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble) and their major activities include provision of services to foreign investors. Moreover, the majority of their operations are denominated in US Dollars and also, the US Dollar is the currency in which their business risks and exposures are managed and the performance of their business is measured.

Accounting for subordinated loans from Vnesheconombank. On 29 January 2009 the Group received a subordinated loan from Vnesheconombank ("VEB") in the amount of RR 10 201 million bearing a fixed interest rate of 8% per annum payable quarterly until maturity on 25 December 2019, followed by the second tranche of that subordinated loan in the amount of RR 231 million received on 19 October 2009.

In October 2009 the Group received another subordinated loan from VEB in the amount of RR 29 181 million bearing a fixed interest rate of 9.5% per annum plus a fee of 0.03% per annum, which matures on 25 December 2020. The Group has an option to repay this loan at any time subject to approvals from the CBRF and VEB.

In accordance with the terms of the loan agreements Alfa-Bank is required (i) to maintain a portfolio of loans with a term of not less than six months issued to priority sectors of economy in Russia in the amount of the January 2009 subordinated loan outstanding; (ii) to maintain a portfolio of loans with a term of not less than one year issued to priority sectors of the economy in Russia in the amount of the October 2009 subordinated loan outstanding at interest rates less than or equal to the CBRF refinancing rate plus three percent; (iii) to obtain approval from VEB for certain significant transactions and (iv) to include VEB nominees in Alfa-Bank's management bodies. As at 31 December 2009 and as at the date of the consolidated financial statements no VEB nominees were officially represented in Alfa-Bank's management bodies.

Due to its unique terms and conditions, subordinated nature and absence of observable current market transactions providing evidence of a market rate for such instruments, the loans were originally recognized and subsequently carried on the statement of financial position at amortised contractual value.

If there was evidence that the market interest rate for such loans was higher than the contractual interest rates, the amortised contractual value of the loans would have been replaced by (i) amortised value of the loans determined based on the fair value of the loans at the date of origination and (ii) unamortised value of the government grants embedded in such low interest loans; there would have been no impact on the profit or loss for the year since the increased effective interest rates would have been offset by amortisation of the government grants.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 36.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2009:

IFRS 8, Operating Segments. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The adoption of IFRS 8 has resulted in (i) a reduction of the number of segments as the previously separately reported Corporate Banking and Investment Banking segments have been merged in one segment, and (ii) a different presentation of segment revenues and results as some revenues and expenses were accounted for and allocated differently for the purposes of preparation of the segment information prior to the adoption of IFRS 8.

An operating segment is a component of the Group, that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The CODM has been identified as the members of the Group's Executive Board.

Comparative segment disclosures have been restated to conform to the presentation in the current period.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting.

The above amendments did not have an impact on the Group except:

- ***IAS 16, Property, Plant and Equipment (and consequential amendments to IAS 7).*** Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are recognised as revenue. The rent and proceeds from sale have to be classified as cash flows from operating activities. The Group amended its accounting policies accordingly.
- ***IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.*** The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs. The amendment applies prospectively to government loans received in periods beginning on or after 1 January 2009.
- ***IAS 40, Investment Property (and consequential amendments to IAS 16).*** Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. The Group applied the amendment prospectively from 1 January 2009.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Adoption of IAS 1, Presentation of Financial Statements, revised in September 2007 and effective for annual periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available for sale financial assets. The revised IAS 1 also introduces a requirement to present (in the annual financial statements) a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's consolidated financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except by the foreign operation that is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. Management is currently assessing the impact of the new interpretation on the Group's consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. IFRIC 19 is not expected to have any impact on the Group's consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. Management is currently assessing the impact of this new pronouncement on the consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total profit or loss for the year to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill.

An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. Management is currently assessing what impact the pronouncement will have on the Group's consolidated financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). The IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial instruments part 1: Classification and measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

6 New Accounting Pronouncements (Continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

7 Cash and Cash Equivalents

In millions of US Dollars	**2009**	**2008**
Cash on hand	506	791
Cash balances with central banks (other than mandatory cash balances)	935	2 287
Correspondent and settlement accounts with banks and financial institutions		
- Russian Federation	154	346
- Europe and USA	225	328
- Other countries	11	1
Overnight placements with other banks		
- Russian Federation	78	-
- Other countries	57	107
Total cash and cash equivalents	**1 966**	**3 860**

7 Cash and Cash Equivalents (Continued)

The credit quality of balances on correspondent and settlement accounts with banks and financial institutions is managed through a system of qualitative risk management procedures comprising credit risk assessment before acceptance. Furthermore, after establishing a correspondent account, depending on the magnitude of the balance, Management carries out regular monitoring of the financial position and performance of the counterparties.

The analysis by credit quality of overnight placements is based on their stratification by set limits. Higher limits are assigned to counterparties whose credit quality is better. Analysis by credit quality of overnight placements was as follows:

In millions of US Dollars	2009	2008
Neither past due nor impaired		
- limit above USD 100 million	108	100
- limit below USD 100 million	27	7
Total overnight placements	**135**	**107**

As at 31 December 2009 the ten largest aggregate balances on correspondent and settlement accounts and overnight placements with other banks and financial institutions amounted to USD 485 million (2008: USD 768 million) or 92.4 % (2008: 98.2%) of the correspondent and settlement accounts and overnight placements.

For the purposes of measurement the Group classified all balances included in cash and cash equivalents as loans and receivables. Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

8 Trading Securities and Repurchase Receivables

In millions of US Dollars	2009	2008
Trading securities		
Corporate Eurobonds	554	346
Corporate bonds	383	91
Eurobonds of other states	347	96
Municipal Eurobonds	40	-
Municipal bonds	1	6
Russian Federation Eurobonds	-	2
Bonds of other states	-	30
Total debt trading securities	**1 325**	**571**
Corporate shares	30	11
ADRs and GDRs	17	6
Total trading securities	**1 372**	**588**
Repurchase receivables		
Corporate bonds	-	113
Corporate Eurobonds	-	22
Russian Federation Eurobonds	-	15
Municipal bonds	-	1
Total repurchase receivables	**-**	**151**
Total trading securities and repurchase receivables	**1 372**	**739**

8 Trading Securities and Repurchase Receivables (Continued)

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles and Euros, issued mainly by large Russian and CIS companies and freely tradable internationally. As at 31 December 2009 these bonds have maturity dates ranging from February 2010 to July 2035 (2008: from February 2009 to July 2035), coupon rates from 1.3% to 13.5% p.a. (2008: from 1.6% to 13.5% p.a.) and yields to maturity from 2.4% to 23.6% p.a. (2008: from 5.8% to 68.6% p.a.), depending on the type of bond issue.

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2009 these bonds have maturity dates ranging from February 2010 to November 2019 (2008: January 2009 to February 2017), coupon rates from 7.1% to 25.0% p.a. (2008: from 6.7% to 16.5% p.a.) and yields to maturity from 1.2% to 19.8% p.a. (2008: from 5.8% to 84.4% p.a.), depending on the type of bond issue.

Eurobonds of other states are interest-bearing securities denominated in Euros and US Dollars, issued mainly by European and CIS states, and freely tradable internationally. As at 31 December 2009 these bonds have maturity dates ranging from January 2010 to November 2017 (2008: January 2009 to November 2017), coupon rates from 2.5% to 6.8% p.a. (2008: from 2.8% to 6.8% p.a.) and yields to maturity from 0.3% to 13.6% p.a. (2008: from 1.8% to 31.6% p.a.), depending on the type of bond issue.

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Note 15). The counterparty financial institutions have a right to resell or pledge these securities.

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2009:

In millions of US Dollars	**Corporate Eurobonds**	**Corporate bonds**	**Eurobonds of other states**	**Municipal Eurobonds**	**Municipal bonds**	**Total**
Neither past due nor impaired (at fair value)						
- limit above USD 50 million	18	67	337	40	-	462
- limit from USD 10 to 50 million	176	137	-	-	-	313
- limit below USD 10 million	7	-	-	-	-	7
- position hedged by derivatives	338	177	10	-	1	526
- other	12	2	-	-	-	14
Total neither past due nor impaired debt trading securities and repurchase receivables	**551**	**383**	**347**	**40**	**1**	**1 322**
Past due (at fair value)						
- 30 to 90 days overdue	3	-	-	-	-	**3**
Total debt trading securities and repurchase receivables	**554**	**383**	**347**	**40**	**1**	**1 325**

8 Trading Securities and Repurchase Receivables (Continued)

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2008:

In millions of US Dollars	Corporate Eurobonds	Corporate bonds	Eurobonds of other states	Bonds of other states	Russian Federation Eurobonds	Municipal bonds	Total
Neither past due nor impaired (at fair value)							
- limit above USD 50 million	18	47	-	-	17	-	82
- limit from USD 10 to 50 million	265	53	90	-	-	6	414
- limit below USD 10 million	9	6	6	-	-	-	21
- position hedged by derivatives	40	55	-	-	-	1	96
- other	36	43	-	30	-	-	109
Total debt trading securities and repurchase receivables	**368**	**204**	**96**	**30**	**17**	**7**	**722**

The above analysis by credit quality is based on the stratification by set limits. Larger limits are assigned to counterparties whose credit quality is better.

As at 31 December 2009 and as at 31 December 2008 the long balance sheet position of the Group in trading securities and repurchase receivables was partially hedged by an opposite position in derivative financial instruments for those securities. These economic hedges significantly reduce credit risk related to respective securities and therefore such securities are not covered by individual limits and disclosed separately in the table above. Refer to Note 34.

Trading securities and repurchase receivables are carried at fair value which also reflects any credit risk related write-downs. As at 31 December 2008 no amounts of the debt securities were past due.

For the purposes of measurement the Group classified all balances included in trading securities and repurchase receivables as financial assets at fair value through profit or loss held for trading.

The Group reclassified the following financial assets from held for trading category to the available for sale category during 2008:

In millions of US Dollars	Carrying value	Cash flows expected to be recovered	Effective interest rate, %
Russian Federation Eurobonds	25	46	7.5
Corporate bonds	61	79	11.1
Corporate Eurobonds	225	280	8.3
Total	**311**	**405**	

The reclassification was made effective from 1 July 2008 when, in Management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

8 Trading Securities and Repurchase Receivables (Continued)

Management believed that the declines in market prices that occurred in the third quarter of 2008 represented a rare event as they were significantly out of line with historical volatilities observed in financial markets. The performance of market prices in 2009 confirmed that assessment in most cases.

As at 31 December 2009 the fair values of financial assets that have been reclassified during 2008 from trading securities to investment securities available for sale and which were not yet sold or otherwise derecognised, amounted to USD 35 million (2008: USD 186 million).

Interest income, foreign exchange gains less losses and impairment losses recognised in profit or loss for the year ended 31 December 2009 for the reclassified assets amounted to USD 5 million (2008: USD 3 million). Had the assets not been reclassified, fair value gains less losses recognised in profit or loss for the year ended 31 December 2009 would have been higher by USD 49 million (2008: lower by USD 49 million).

Currency, maturity and interest rates analyses of trading securities and repurchase receivables are disclosed in Note 31. The information on securities issued by related parties and owned by the Group is disclosed in Note 36.

9 Due from Other Banks

In millions of US Dollars	**2009**	**2008**
Term placements with other banks	2 260	1 732
Reverse sale and repurchase agreements with other banks	10	110
Less: Provision for impairment	-	(5)
Total due from other banks	**2 270**	**1 837**

As at 31 December 2009 reverse sale and repurchase agreements with other banks were effectively collateralised by securities purchased with estimated fair value of USD 10 million (2008: USD 128 million), all of which the Group had the right to sell or repledge.

As at 31 December 2009 the ten largest aggregate balances due from other banks amounted to USD 1 660 million (2008: USD 1 375 million) or 73.1% (2008: 74.9%) of total due from other banks.

Movements in the provision for impairment of due from other banks are as follows:

In thousands of Russian Roubles	**2009**	**2008**
Provision for impairment as at 1 January	5	-
(Recovery of provision)/provision for impairment during the year	(5)	5
Provision for impairment as at 31 December	**-**	**5**

9 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2009 was as follows:

In millions of US Dollars	Term placements with other banks	Reverse sale and repurchase agreements with other banks	Total
Neither past due nor impaired			
- limit above USD 200 million	411	-	411
- limit from USD 100 to 200 million	1 301	-	1 301
- limit below USD 100 million	541	10	551
- other	7	-	7
Total due from other banks	**2 260**	**10**	**2 270**

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2008 was as follows:

In millions of US Dollars	Term placements with other banks	Reverse sale and repurchase agreements with other banks	Total
Neither past due nor impaired			
- limit above USD 200 million	52	-	52
- limit from USD 100 to 200 million	1 233	-	1 233
- limit below USD 100 million	397	46	443
- other	33	64	97
Individually determined to be impaired	17	-	17
Provision for impairment	(5)	-	(5)
Total due from other banks	**1 727**	**110**	**1 837**

The above analysis by credit quality is based on the stratification by set limits. Larger limits are assigned to counterparties whose credit quality is better.

As at 31 December 2009 included within term placements with other banks are deposits placed under the Diversified Payment Rights Secured Debt Issuance Programme in the amount of USD 77 million (2008: USD 84 million). Refer to Note 17.

As at 31 December 2009 included within term placements with other banks are margin call deposits in the amount of USD 247 million (2008: USD 324 million) placed as collateral under transactions with derivatives and operations with securities.

As at 31 December 2009 and 2008 the fair value of each class of financial assets included in due from other banks approximated their carrying value. Refer to Note 35.

For the purposes of measurement the Group classified all balances included in due from other banks as loans and receivables. Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

10 Loans and Advances to Customers

In millions of US Dollars	**2009**	**2008**
Corporate loans	11 461	14 798
Finance lease receivables	1 188	1 305
Loans to small and medium-size enterprises (SMEs)	117	284
Advances on lease operations	25	67
Reverse sale and repurchase receivables	58	19
Total gross loans and advances to corporate customers	**12 849**	**16 473**
Less: Provision for loan impairment	(1 403)	(1 073)
Total loans and advances to corporate customers	**11 446**	**15 400**
Loans to individuals - credit cards and personal instalment loans (PILs)	835	962
Loans to individuals - mortgage loans	428	509
Loans to individuals - consumer loans	387	499
Loans to individuals - car loans	426	705
Reverse sale and repurchase receivables	28	12
Total gross loans and advances to individuals	**2 104**	**2 687**
Less: Provision for loan impairment	(101)	(117)
Total loans and advances to individuals	**2 003**	**2 570**
Total loans and advances to customers	**13 449**	**17 970**

Movements in the provision for loan impairment during 2009 were as follows:

In millions of US Dollars	**Corporate loans**	**Finance lease receivables**	**Loans to SMEs**	**Advances on lease operations**	**Loans to individuals**				**Total**
					Credit cards and PILs	**Mortgage loans**	**Consumer loans**	**Car loans**	
Provision for loan impairment as at 1 January 2009	**1 011**	**33**	**27**	**2**	**49**	**4**	**41**	**23**	**1190**
Provisions during the year	277	163	-	7	116	16	23	26	628
Amounts written off as uncollectible	(89)	-	-	-	(110)	-	(43)	(34)	(276)
Disposal of a subsidiary	(3)	-	-	-	-	-	-	-	(3)
Translation movement	(23)	(1)	(1)	-	(4)	-	(4)	(2)	(35)
Provision for loan impairment as at 31 December 2009	**1 173**	**195**	**26**	**9**	**51**	**20**	**17**	**13**	**1 504**

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2008 were as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Advances on lease operations	Loans to individuals: Credit cards and PILs	Loans to individuals: Mortgage loans	Loans to individuals: Consumer loans	Loans to individuals: Car loans	Total
Provision for loan impairment as at 1 January 2008	**269**	**13**	**8**	**-**	**37**	**1**	**32**	**21**	**381**
Provisions during the year	782	23	20	2	67	4	55	28	981
Amounts written off as uncollectible	(6)	-	-	-	(49)	(1)	(41)	(23)	(120)
Translation movement	(34)	(3)	(1)	-	(6)	-	(5)	(3)	(52)
Provision for loan impairment as at 31 December 2008	**1 011**	**33**	**27**	**2**	**49**	**4**	**41**	**23**	**1 190**

The provision for loan impairment during 2009 differs from the amount presented in profit or loss for the year due to USD 34 million (2008: USD 30 million) recovery during 2009 of amounts previously written off as uncollectible. This amount was credited directly to the provisions line in profit or loss for the year.

Economic sector risk concentrations within the loans and advances to customers were as follows:

In millions of US Dollars	2009 Amount	2009 %	2008 Amount	2008 %
Construction	2 129	16	3 238	17
Individuals	2 104	14	2 687	14
Railway transport	1 593	11	1 820	10
Trade and commerce	1 418	9	2 065	11
Power generation	1 120	7	988	5
Machinery and metal working	804	5	1 114	6
Finance and investment companies	756	5	882	5
Ferrous metallurgy	662	4	897	5
Nuclear industry	622	4	455	2
Armament production	549	4	703	4
Food industry	468	3	477	2
Chemistry and petro chemistry	379	3	208	1
Coal industry	359	2	213	1
Non-ferrous metallurgy	355	2	858	4
Diamond extraction and processing	275	2	302	2
Mass media and telecommunications	256	2	237	1
Aviation transport	247	2	302	2
Agriculture	182	1	251	1
Oil industry	77	1	815	4
Timber industry	35	-	48	-
Water transport	31	-	44	-
Natural gas industry	24	-	49	-
Other	508	3	507	3
Total gross loans and advances to customers	**14 953**	**100**	**19 160**	**100**

10 Loans and Advances to Customers (Continued)

As at 31 December 2009 aggregate loans and advances to the ten largest borrowers (or groups of related borrowers) amounted to USD 4 243 million (2008: USD 4 255 million) or 28.4% (2008: 22.2%) of the gross loans and advances to customers, while aggregate loans and advances to the 20 largest borrowers (or groups of related borrowers) amounted to USD 6 339 million (2008: USD 6 274 million) or 42.4% (2008: 32.7%) of the gross loans and advances to customers.

As at 31 December 2009 loans and advances to customers in the total amount of USD 268 million (2008: USD 837 million) were pledged as collateral for the financing received from the CBRF (Note 15) and USD 497 million (2008: USD 396 million) for the financing received from the State Deposit Insurance Agency (Note 18).

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2009 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Advances on lease operations	Reverse sale and repurchase receivables	Total
Neither past due nor impaired						
- Rating I	1 001	-	-	-	-	1 001
- Rating II	2 491	89	21	6	44	2 651
- Rating III	3 204	111	69	6	8	3 398
- Rating IV	160	3	-	-	6	169
- Loans renegotiated in 2009	1 561	154	-	-	-	1 715
Total gross neither past due nor impaired	**8 417**	**357**	**90**	**12**	**58**	**8 934**
Past due but not impaired						
- less than 30 days overdue	36	-	-	-	-	36
- 30 to 90 days overdue	-	-	-	-	-	-
Total gross past due but not impaired	**36**	**-**	**-**	**-**	**-**	**36**
Individually determined to be impaired						
- not past due	750	137	4	13	-	904
- less than 30 days overdue	218	-	1	-	-	219
- 30 to 90 days overdue	181	694	-	-	-	875
- 90 to 180 days overdue	144	-	4	-	-	148
- 180-360 days overdue	1 190	-	6	-	-	1 196
- over 360 days overdue	525	-	12	-	-	537
Total gross individually impaired loans	**3 008**	**831**	**27**	**13**	**-**	**3 879**
Total gross loans and advances	**11 461**	**1 188**	**117**	**25**	**58**	**12 849**
Provision for loan impairment	**(1 173)**	**(195)**	**(26)**	**(9)**	**-**	**(1 403)**
Total loans and advances to corporate customers	**10 288**	**993**	**91**	**16**	**58**	**11 446**

10 Loans and Advances to Customers (Continued)

Refer to Note 31 for the description of credit quality ratings. The Group created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period. The Group's policy is to classify each loan as "current and not impaired" until specific objective evidence of impairment of the loan is identified.

Current and not impaired, but renegotiated loans represent the carrying amount of loans to customers that would otherwise be past due or impaired had their terms not been renegotiated.

The amount of loans reported as past due represents the whole balance of such loans while for some of them only individual instalments may be past due. The amount of those past due instalments on loans to corporate customers as at 31 December 2009 was as follows:

In millions of US Dollars	**Corporate loans**	**Finance lease receivables**	**Loans to SMEs**	**Total**
- past due instalments	1 829	119	22	1 970
- current portion of past due loans	465	575	1	1 041
Total past due loans and advances to corporate customers	**2 294**	**694**	**23**	**3 011**

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2008 was as follows:

In millions of US Dollars	**Corporate loans**	**Finance lease receivables**	**Loans to SMEs**	**Advances on lease operations**	**Reverse sale and repurchase receivables**	**Total**
Neither past due nor impaired						
- Rating I	4 459	65	5	3	7	4 539
- Rating II	4 403	117	54	58	7	4 639
- Rating III	3 645	178	183	5	5	4 016
- Rating IV	344	60	3	-	-	407
Total gross neither past due nor impaired	**12 851**	**420**	**245**	**66**	**19**	**13 601**
Past due but not impaired						
- less than 30 days overdue	187	49	2	-	-	238
- 30 to 90 days overdue	-	826	-	-	-	826
Total gross past due but not impaired	**187**	**875**	**2**	**-**	**-**	**1 064**
Individually determined to be impaired						
- not past due	948	10	18	1	-	977
- less than 30 days overdue	405	-	4	-	-	409
- 30 to 90 days overdue	246	-	8	-	-	254
- 90 to 180 days overdue	69	-	4	-	-	73
- 180-360 days overdue	90	-	3	-	-	93
- over 360 days overdue	2	-	-	-	-	2
Total gross individually impaired loans	**1 760**	**10**	**37**	**1**	**-**	**1 808**
Total gross loans and advances	**14 798**	**1 305**	**284**	**67**	**19**	**16 473**
Provision for loan impairment	**(1 011)**	**(33)**	**(27)**	**(2)**	**-**	**(1 073)**
Total loans and advances to corporate customers	**13 787**	**1 272**	**257**	**65**	**19**	**15 400**

10 Loans and Advances to Customers (Continued)

The amount of loans reported as past due represents the whole balance of such loans while for some of them only individual instalments may be past due. The amount of those past due instalments on loans to corporate customers as at 31 December 2008 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Total
- past due instalments	956	106	3	1 065
- current portion of past due loans	43	769	18	830
Total past due loans and advances to corporate customers	**999**	**875**	**21**	**1 895**

Analysis by credit quality of loans to individuals outstanding as at 31 December 2009 was as follows:

In millions of US Dollars	Credit cards and PILs	Mortgage loans	Consumer loans	Car loans	Reverse sale and repurchase receivables	Total
Neither past due nor impaired	769	388	367	396	28	1 948
Total gross neither past due nor impaired	**769**	**388**	**367**	**396**	**28**	**1 948**
Past due but not impaired						
- less than 30 days overdue	25	7	9	13	-	54
Total gross past due but not impaired	**25**	**7**	**9**	**13**	**-**	**54**
Individually determined to be impaired						
- 30 to 90 days overdue	15	5	5	9	-	34
- 90 to 180 days overdue	26	8	6	8	-	48
- 180 to 360 days overdue	-	2	-	-	-	2
- over 360 days overdue	-	18	-	-	-	18
Total gross individually impaired loans	**41**	**33**	**11**	**17**	**-**	**102**
Total gross loans and advances to individuals	**835**	**428**	**387**	**426**	**28**	**2 104**
Provision for loan impairment	**(51)**	**(20)**	**(17)**	**(13)**	**-**	**(101)**
Total loans and advances to individuals	**784**	**408**	**370**	**413**	**28**	**2 003**

Current and not impaired loans to individuals represent loans without signs of individual impairment and originated on the basis of underwriting procedures (Note 31).

10 Loans and Advances to Customers (Continued)

The primary factors that the Group considers in determining whether a loan has become impaired are ability of borrowers to service their debt, loans and interest overdue status and realisability of related collateral, if any.

The amount of loans reported as past due represents the whole balance of such loans while for some of them only individual instalments may be past due. The amount of those past due instalments on loans to individuals as at 31 December 2009 was as follows:

In millions of US Dollars	Credit cards and PILs	Mortgage loans	Consumer loans	Car loans	Total
- past due instalments	32	25	8	8	73
- current portion of past due loans	34	15	12	22	83
Total past due loans and advances to individuals	**66**	**40**	**20**	**30**	**156**

Analysis by credit quality of loans to individuals outstanding as at 31 December 2008 was as follows:

In millions of US Dollars	Credit cards and PILs	Mortgage loans	Consumer loans	Car loans	Reverse sale and repurchase receivables	Total
Neither past due nor impaired	887	492	457	666	12	2 514
Total gross neither past due nor impaired	**887**	**492**	**457**	**666**	**12**	**2 514**
Past due but not impaired						
- less than 30 days overdue	34	11	21	21	-	87
Total gross past due but not impaired	**34**	**11**	**21**	**21**	**-**	**87**
Individually determined to be impaired						
- 30 to 90 days overdue	24	5	11	11	-	51
- 90 to 180 days overdue	17	1	10	7	-	35
Total gross individually impaired loans	**41**	**6**	**21**	**18**	**-**	**86**
Total gross loans and advances to individuals	**962**	**509**	**499**	**705**	**12**	**2 687**
Provision for loan impairment	**(49)**	**(4)**	**(41)**	**(23)**	**-**	**(117)**
Total loans and advances to individuals	**913**	**505**	**458**	**682**	**12**	**2 570**

10 Loans and Advances to Customers (Continued)

The amount of loans reported as past due represents the whole balance of such loans while for some of them only individual instalments may be past due. The amount of those past due instalments on loans to individuals as at 31 December 2008 was as follows:

In millions of US Dollars	Credit cards and PILs	Mortgage loans	Consumer loans	Car loans	Total
- past due instalments	22	1	28	9	60
- current portion of past due loans	53	16	14	30	113
Total past due loans and advances to individuals	**75**	**17**	**42**	**39**	**173**

Maturities of gross and net investments in finance lease are analysed as follows:

In millions of US Dollars	Within 1 year	Between 1 and 5 years	More than 5 years	Total
Gross finance lease receivable as at 31 December 2009	**385**	**1 040**	**245**	**1 670**
Less future finance income on finance leases	(56)	(371)	(55)	(482)
Net investment in finance leases as at 31 December 2009	**329**	**669**	**190**	**1 188**
Gross finance lease receivable as at 31 December 2008	**377**	**1 220**	**346**	**1 943**
Less future finance income on finance leases	(86)	(510)	(42)	(638)
Net investment in finance leases as at 31 December 2008	**291**	**710**	**304**	**1 305**

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2009 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Car loans	Mortgage loans	Total
Fair value of collateral - loans past due but not impaired						
- residential real estate	3	-	-	-	7	10
- cash deposits	-	-	-	-	-	-
- other real estate	-	-	-			-
- equipment	33	-	-	-	-	33
- other assets	-	-	-	8	-	8
Fair value of collateral - individually impaired loans						
- residential real estate	-	-	-	-	33	33
- other real estate	838	-	7	-	-	845
- equipment	662	667	5	-	-	1 334
- other assets	96	-	-	11	-	107
Total	**1 632**	**667**	**12**	**19**	**40**	**2 370**

10 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2008 was as follows:

In millions of US Dollars	Corporate loans	Finance lease receivables	Loans to SMEs	Mortgage loans	Car loans	Total
Fair value of collateral - loans past due but not impaired						
- residential real estate	16	-	-	10	-	26
- other real estate	87	-	-	-	-	87
- equipment	-	719	-	-	-	719
- other assets	3	-	-	-	14	17
Fair value of collateral - individually impaired loans						
- residential real estate	-	-	-	6	-	6
- other real estate	345	-	7	-	-	352
- equipment	809	8	3	-	-	820
- other assets	47	-	-	-	11	58
Total	**1 307**	**727**	**10**	**16**	**25**	**2 085**

Fair value of collateral was determined by the Group's lending department using the Group's internal guidelines on the basis of either internal expert evaluation, or an independent appraiser's evaluation or on the basis of the depreciated replacement cost of the collateral.

In the normal course of business the Group obtains collateral and/or guarantees for loans to legal entities. Acceptable collateral includes real estate, property, equipment, inventories, securities, contractual rights and certain other assets. Guarantees can be provided by controlling shareholders, government entities, banks and other solvent legal entities. As at 31 December 2009 corporate loans in the amount of USD 4 925 million (2008: USD 4 799 million) were not secured (or were secured by collateral which does not allow to classify the loan as secured using criteria of the Group) and loans in the amount of USD 1 545 million (2008: USD 2 471 million) were secured only by third party guarantees where guarantors considered to be related to the borrower itself. As at 31 December 2009 and 2008 most of the loans to small and medium size enterprises were secured by collateral or guarantees. Finance lease receivables are secured by the leased equipment the title to which is normally retained by the Group for the duration of the lease. Reverse sale and repurchase agreements are effectively collateralised by securities sold under those agreements. As at 31 December 2009 reverse sale and repurchase agreements were collateralised by securities purchased with estimated fair value of USD 81 million (2008: USD 39 million) all of which the Group had right to sell or repledge.

Credit cards, personal instalment and consumer loans to individuals are not secured. Car loans and mortgage loans to individuals are collateralised respectively by cars and property acquired.

The estimated fair value of loans and advances to customers was as follows:

	2009		2008	
In millions of US Dollars	Fair value	Carrying value	Fair value	Carrying value
Corporate loans	9 924	10 288	12 890	13 787
Finance lease receivables	833	993	1 245	1 272
Loans to individuals - credit cards and PILs	778	784	913	913
Loans to individuals - car loans	368	413	622	682
Loans to individuals - mortgage loans	364	408	466	505
Loans to individuals - consumer loans	382	370	458	458
Loans to SMEs	93	91	249	257
Reverse sale and repurchase receivables - corporate customers	58	58	19	19
Reverse sale and repurchase receivables - individuals	28	28	12	12
Advances on lease operations	14	16	65	65
Total loans and advances to customers	**12 842**	**13 449**	**16 939**	**17 970**

10 Loans and Advances to Customers (Continued)

Refer to Note 35 for the discount rates used for fair value calculation. For the purposes of measurement the Group classified all balances included in loans and advances to customers as loans and receivables. Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

11 Investments and Repurchase Receivables Relating to Investments

In millions of US Dollars	**2009**	**2008**
Russian Federation bonds and Eurobonds	643	150
Corporate Eurobonds	366	138
Corporate bonds	-	29
Total debt investments available for sale	**1 009**	**317**
Russian Federation bonds and Eurobonds	-	215
Total repurchase receivables relating to debt investments available for sale	**-**	**215**
Total debt investments available for sale and repurchase receivables	**1 009**	**532**
Pamplona Credit Opportunities Fund	317	-
Pamplona Capital Partners I L.P.	97	-
Total equity investments available for sale	**414**	**-**
Equity investments at fair value through profit and loss	**85**	**55**
Total investments and repurchase receivables relating to investments	**1 508**	**587**

Debt investments available for sale and repurchase receivables relating to debt investments available for sale

Russian Federation bonds and Eurobonds are interest-bearing securities denominated in Russian Roubles or US Dollars and are freely tradable in the Russian Federation and internationally. As at 31 December 2009 these bonds have maturity dates ranging from January 2010 to August 2014 (2008: from March 2009 to February 2036), coupon rates from 5.8% to 12.0% p.a. (2008: from 5.8% to 10.0% p.a.) and yields to maturity from 4.3% to 8.4% p.a. (2008: from 6.0% to 11.8% p.a.), depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars or Russian Roubles, issued mainly by large Russian and CIS companies, and freely tradable internationally. As at 31 December 2009 these bonds have maturity dates ranging from March 2010 to November 2014 (2008: from March 2009 to July 2016), coupon rates from 1.5% to 18.0% p.a. (2008: from 6.3% to 10.0% p.a.) and yields to maturity from 4.5% to 23.3% p.a. (2008: from 2.4% to 100.0% p.a.), depending on the type of bond issue.

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Notes 15). The counterparty financial institutions have a right to resell or pledge these securities.

11 Investments and Repurchase Receivables Relating to Investments (Continued)

As at 31 December 2009 the analysis by credit quality of debt investments available for sale and repurchase receivables was as follows:

In millions of US Dollars	**Russian Federation bonds and Eurobonds**	**Corporate Eurobonds**	**Total**
Neither past due nor impaired (at fair value)			
- limit above USD 100 million	643	100	743
- limit from USD 50 to 100 million	-	57	57
- limit below USD 50 million	-	174	174
Total neither past due nor impaired debt investments available for sale and repurchase receivables	**643**	**331**	**974**
Individually determined to be impaired (at fair value)			
- not past due	-	35	35
Total impaired debt investments available for sale and repurchase receivables	**-**	**35**	**35**
Total debt investments available for sale and repurchase receivables	**643**	**366**	**1 009**

As at 31 December 2008 the analysis by credit quality of debt investments available for sale and repurchase receivables was as follows:

In millions of US Dollars	**Russian Federation bonds and Eurobonds**	**Corporate Eurobonds**	**Corporate bonds**	**Total**
Neither past due nor impaired (at fair value)				
- limit above USD 100 million	365	7	-	372
- limit from USD 50 to 100 million	-	75	17	92
- limit below USD 50 million	-	-	1	1
Total neither past due nor impaired debt investments available for sale and repurchase receivables	**365**	**82**	**18**	**465**
Individually determined to be impaired (at fair value)				
- not past due	-	56	11	67
Total impaired debt investments available for sale and repurchase receivables	**-**	**56**	**11**	**67**
Total debt investments available for sale and repurchase receivables	**365**	**138**	**29**	**532**

11 Investments and Repurchase Receivables Relating to Investments (Continued)

Equity investments available for sale

In 2009 the Group purchased from a subsidiary of Alfa Group (Note 36) a limited partnership interest in Pamplona Capital Partners I L.P. for EUR 64.4 million and an investment position in Pamplona Credit Opportunities Fund for EUR 209.5 million. Pamplona Capital Partners I L.P. is a private equity fund, investing primarily in industrial companies in Europe. Pamplona Credit Opportunities Fund is a multi-strategy credit fund investing in corporate and structured credit with a European focus. These funds are managed by Pamplona Capital Management LLP, an independent investment manager. A member of the Board of Directors of Alfa-Bank is the Chief Executive Officer of Pamplona Capital Management LLP. The Group in both cases is an investor in the funds but has no participation in the management of the funds.

Movements in investments available for sale and repurchase receivables were as follows:

In millions of US Dollars	Note	2009	2008
Carrying amount at 1 January		**532**	**9**
Reclassified from trading securities	8	-	311
Acquisitions		1 161	421
Disposals		(196)	(13)
Fair value gain less losses		85	(61)
Interest income accrued		52	27
Interest income received		(47)	(24)
Impairment of debt investments available for sale		(3)	(34)
Redemption at nominal value		(141)	(7)
Effect of exchange rates changes		(21)	19
Effect of translation to presentation currency		1	(116)
Carrying amount at 31 December		**1 423**	**532**

Currency, maturity and interest rate analysis of debt investments available for sale and repurchase receivables is disclosed in Note 31.

Information on related party balances is disclosed in Note 36.

Gains less losses arising from investments

The table below represents an analysis of gains less losses arising from investments:

In millions of US Dollars	2009	2008
Gains less losses from equity investments designated at fair value through profit or loss	27	16
Losses less gains on disposed investments available for sale	(33)	(5)
Reversal of impairment on disposed investments available for sale	6	-
Impairment of investments available for sale	(3)	(34)
Total gains less losses arising from investments	**(3)**	**(23)**

12 Other Financial Assets

In millions of US Dollars	Note	2009	2008
Trade debtors		70	78
Derivative financial instruments	34	63	991
Receivables at fair value through profit or loss		42	-
Receivables on operations with securities		34	65
Plastic card debtors		14	9
Other		51	65
Less: Provision for impairment		(23)	(13)
Total other financial assets		**251**	**1 195**

12 Other Financial Assets (Continued)

As at 31 December 2008 derivative financial instruments included USD 204 million related to instruments contracted with ABH Ukraine Group (Note 36).

As at 31 December 2009 derivative financial instruments included USD 33 million (2008: USD 619 million) related to instruments contracted with large international banks.

Receivables at fair value through profit or loss represent rights of the Group to receive at any time during a specified period amounts approximating fair value of certain investments received by ADA (Note 36) in relation to lending operations of the Group. These receivables were designated by the Group as at fair value through profit or loss upon initial recognition.

As at 31 December 2009 the Group held margin call deposits pledged by its counterparties as collateral under transactions with derivative financial instruments and operations with securities. Refer to Notes 15 and 16.

Movements in the provision for impairment of other financial assets were as follows:

In millions of US Dollars	**2009**	**2008**
Provision for impairment as at 1 January	**13**	**6**
Provision for impairment during the year	22	13
Amounts written off during the year as uncollectible	(11)	(5)
Effect of translation to presentation currency	(1)	(1)
Provision for impairment as at 31 December	**23**	**13**

Analysis by credit quality of other financial assets outstanding as at 31 December 2009 was as follows:

In millions of US Dollars	**Trade debtors**	**Derivative financial instru-ments**	**Receiva-bles at fair value through profit or loss**	**Receivab-les on opera-tions with securities**	**Plastic card debtors**	**Other**	**Total**
Neither past due nor impaired with credit history	23	63	42	30	12	10	180
Neither past due nor impaired without credit history	40	-	-	4	1	26	71
Past due and impaired	7	-	-	-	1	15	23
Total gross other financial assets	**70**	**63**	**42**	**34**	**14**	**51**	**274**
Provision for impairment	(7)	-	-	-	(1)	(15)	(23)
Total other financial assets	**63**	**63**	**42**	**34**	**13**	**36**	**251**

12 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding as at 31 December 2008 was as follows:

In millions of US Dollars	Trade debtors	Derivative financial instru-ments	Receivab-les on opera-tions with securities	Other	Plastic card debtors	Total
Neither past due nor impaired with credit history	34	991	48	10	9	1 092
Neither past due nor impaired without credit history	32	-	17	53	-	102
Past due and impaired	12	-	-	2	-	14
Total gross other financial assets	**78**	**991**	**65**	**65**	**9**	**1 208**
Provision for impairment	(11)	-	-	(2)	-	(13)
Total other financial assets	**67**	**991**	**65**	**63**	**9**	**1 195**

“Entities with credit history" are those entities of which the Group is aware of their credit history over more than one year.

As at 31 December 2009 and 2008 the fair value of each class of financial assets included in other financial assets approximated their carrying value. Refer to Note 35.

For the purposes of measurement the Group classified all balances included in other financial assets, except for derivative financial instruments, as loans and receivables. Refer to Note 34 for information on derivative financial instruments. Currency and maturity analyses of other financial assets are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

13 Other Assets

In millions of US Dollars	2009	2008
Prepayment of taxes, other than on income	96	151
Goodwill	64	75
Customer relationship	56	79
Computer software	21	21
Prepayment of current income tax	19	42
Repossessed collateral	18	-
Banking license	3	3
Total other assets	**277**	**371**

13 Other Assets (Continued)

Movements in intangible assets during 2009 were as follows:

In millions of US Dollars	Goodwill	Customer relationship	Computer software	Banking license	Total
Carrying amount as at 1 January 2009	**75**	**79**	**21**	**3**	**178**
Cost					
Opening balance	75	79	73	3	230
Additions	-	-	14	-	14
Adjustment of purchase price allocation	(9)	-	-	-	(9)
Disposals	-	-	(6)	-	(6)
Translation movement	(2)	(2)	(1)	-	(5)
Closing balance	**64**	**77**	**80**	**3**	**224**
Accumulated depreciation					
Opening balance	-	-	52	-	52
Amortisation (Note 28)	-	20	10	-	30
Disposals	-	-	(3)	-	(3)
Translation movement	-	1	-	-	1
Closing balance	**-**	**21**	**59**	**-**	**80**
Carrying amount as at 31 December 2009	**64**	**56**	**21**	**3**	**144**

Movements in intangible assets during 2008 were as follows:

In millions of US Dollars	Goodwill	Customer relationship	Computer software	Banking license	Total
Carrying amount as at 1 January 2008	**-**	**-**	**16**	**-**	**16**
Cost					-
Opening balance	-	-	62	-	62
Additions	-	-	18	-	18
Acquisition through business combinations (Note 37)	102	85	-	3	190
Impairment	(20)	-	-	-	(20)
Disposals	-	-	(2)	-	(2)
Translation movement	(7)	(6)	(5)	-	(18)
Closing balance	**75**	**79**	**73**	**3**	**230**
Accumulated depreciation					
Opening balance	-	-	46	-	46
Amortisation (Note 28)	-	-	9	-	9
Disposals	-	-	(1)	-	(1)
Translation movement	-	-	(2)	-	(2)
Closing balance	**-**	**-**	**52**	**-**	**52**
Carrying amount as at 31 December 2008	**75**	**79**	**21**	**3**	**178**

The recoverable amount of goodwill for the purposes of impairment testing was estimated based on value in use calculation.

The information on related party balances is disclosed in Note 36.

14 Premises and Equipment

In millions of US Dollars	Premises	Leasehold improve-ments	Office and computer equipment	Equipment under operating leases	Construc-tion in progress	Total
Carrying amount as at 31 December 2008	**202**	**10**	**133**	**-**	**45**	**390**
Cost						
Opening balance	228	34	240	-	45	547
Revaluation	(41)	-	-	-	-	(41)
Additions	15	-	36	42	5	98
Transfers	(19)	-	19	-	-	-
Disposals	(6)	(9)	(88)	-	(9)	(112)
Translation movement	(7)	(1)	(4)	-	(1)	(13)
Closing balance	**170**	**24**	**203**	**42**	**40**	**479**
Accumulated depreciation						
Opening balance	26	24	107	-	-	157
Revaluation	(1)	-	-	-	-	(1)
Depreciation (Note 28)	5	4	33	2	-	44
Disposals	(1)	(8)	(78)	-	-	(87)
Translation movement	(1)	-	1	-	-	-
Closing balance	**28**	**20**	**63**	**2**	**-**	**113**
Carrying amount as at 31 December 2009	**142**	**4**	**140**	**40**	**40**	**366**

Premises have been revalued at fair value at 31 December 2009 and 2008. The valuation was carried out by an independent firm of valuers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. The market value of premises was assessed using the sales comparison method.

Included in the above carrying amount is USD 41 million (2008: USD 66 million) representing revaluation surplus relating to premises of the Group. As at 31 December 2009 the carrying amount of premises would have been USD 122 million (2008: USD 136 million) had the assets been carried at cost less depreciation.

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises.

Equipment under operating leases represents collateral repossessed by the Group in the course of restructuring finance lease receivables and rented out under operating lease agreements.

14 Premises and Equipment (Continued)

In millions of US Dollars	Premises	Leasehold improve-ments	Office and computer equipment	Construc-tion in progress	Total
Carrying amount as at 31 December 2007	**126**	**24**	**123**	**2**	**275**
Cost					
Opening balance	155	37	227	2	421
Revaluation	(6)	-	-	-	(6)
Additions	8	5	36	1	50
Acquisition through business combinations	113	-	16	42	171
Disposals	(10)	(2)	(10)	-	(22)
Translation movement	(32)	(6)	(29)	-	(67)
Closing balance	**228**	**34**	**240**	**45**	**547**
Accumulated depreciation					
Opening balance	29	13	104	-	146
Revaluation	(1)	-	-	-	(1)
Depreciation	3	14	31	-	48
Disposals	-	-	(9)	-	(9)
Translation movement	(5)	(3)	(19)	-	(27)
Closing balance	**26**	**24**	**107**	**-**	**157**
Carrying amount as at 31 December 2008	**202**	**10**	**133**	**45**	**390**

15 Due to Other Banks

In millions of US Dollars	2009	2008
Correspondent accounts and overnight placements of other banks		
- Russian Federation	148	97
- Other countries	20	174
Term placements of CBRF	251	4 960
Term placements of other banks	687	1 767
Sale and repurchase agreements with CBRF and other banks	2	409
Total due to other banks	**1 108**	**7 407**

As at 31 December 2009 the ten largest aggregate balances due to other banks amounted to USD 637 million (2008: USD 6 412 million) or 57.5% (2008: 86.6%) of total due to other banks, of which USD 253 million (2008: USD 5 369 million) represented balances outstanding to the CBRF.

As at 31 December 2009 balances outstanding to CBRF were comprised of loans received under a secured lending programme in the amount of USD 251 million (31 December 2008: USD 471 million), secured by a pledge of loans and advances to customers in the gross amount of USD 268 million (31 December 2008: USD 837 million) (Note 10). As at 31 December 2008 the Group also had loans of CBRF received (i) under a cross-guarantee lending programme (Note 33) in the amount of USD 1 771 million, (ii) under sale and repurchase agreements in the amount of USD 406 million with the fair value of securities pledged of USD 404 million and (iii) other regular money market finance in the amount of USD 2 718 million.

15 Due to Other Banks (Continued)

As at 31 December 2009 trading securities purchased under reverse sale and repurchase agreements with a fair value of USD 3 million (2008: USD 43 million) were transferred and therefore effectively pledged under sale and purchase agreements with other banks (2008: with the CBRF and other banks). In addition, as at 31 December 2008 trading securities (Note 8) and investment securities available for sale (Note 11) with the aggregated fair value of USD 366 million have been sold to third parties under sale and repurchase agreements with the CBRF and other banks.

As at 31 December 2009 and 2008 the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. As at 31 December 2009 the estimated fair value of due to other banks was USD 1 108 million (2008: USD 7 407 million). Refer to Note 35.

As at 31 December 2009 included within term placements of other banks are margin call deposits in the amount of USD 76 million (2008: USD 179 million) received by the Group as collateral under transactions with derivatives and operations with securities with other banks.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

16 Customer Accounts

In millions of US Dollars	**2009**	**2008**
Commercial organisations		
- Current/settlement accounts	1 818	2 024
- Term deposits	3 970	2 947
Individuals		
- Current/demand accounts	2 901	3 392
- Term deposits	4 037	2 754
State and public organisations		
- Current/settlement accounts	-	2
- Term deposits	960	1 463
Total customer accounts	**13 686**	**12 582**

Economic sector concentrations within customer accounts were as follows:

	2009		**2008**	
In millions of US Dollars	**Amount**	**%**	**Amount**	**%**
Individuals	6 938	51	6 146	48
Manufacturing	1 559	11	956	8
Energy and oil and gas	1 426	10	592	5
Finance and investment companies	985	7	1 762	14
State and public organisations	960	7	1 465	12
Trade and commerce	657	5	612	5
Mass media and telecommunication	320	2	340	3
Science	69	1	33	-
Other	772	6	676	5
Total customer accounts	**13 686**	**100**	**12 582**	**100**

16 Customer Accounts (Continued)

As at 31 December 2009 the ten largest aggregate balances amounted to USD 4 104 million (2008: USD 3 715 million) or 30.0% (2008: 29.5%) of the total customer accounts, of which USD 1 513 million (2008: USD 1 361 million) represented balances outstanding to Alfa Group and its shareholders (Note 36).

Included in customer accounts are balances in the amount of USD 15 million (2008: USD 33 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

As at 31 December 2009 included within customer accounts are margin call deposits in the amount of USD 162 million (2008: USD 124 million) received by the Group as collateral under transactions with derivatives and operations with securities with customers.

As at 31 December 2009 the estimated fair value of customer accounts was USD 13 689 million (2008: USD 12 582 million). Refer to Note 35.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

17 Debt Securities Issued

In millions of US Dollars	**2009**	**2008**
Promissory notes and other domestic bonds	579	412
Notes issued under the DPR Programme	346	694
Euro Medium Term Notes maturing in 2012	346	382
Euro Medium Term Notes maturing in 2013	294	303
Euro Medium Term Notes maturing in 2009	-	381
Euro-Commercial Paper Notes	-	219
Total debt securities issued	**1 565**	**2 391**

In 2006 the Group established a Diversified Payment Rights Secured Debt Issuance Programme, whereby notes issued under the program are collateralised by the Group's rights to funds being transferred through the Group's correspondent accounts ("DPR Programme"). The notes issued under DPR Programme are repayable by quarterly instalments.

Details on issuance of the debt securities under the DPR Programme are as follows:

In millions of currency	**Currency of denomi-nation**	**Nominal value of the issue**	**Issue proceeds net of transaction costs**	**Issue date**	**Maturity date**	**Coupon per annum, payable quarterly**
DPR notes tranche A	USD	200	198	30 March 2007	15 March 2012	LIBOR+2.0%
DPR notes tranche B	EUR	145	144	30 March 2007	15 March 2012	EURIBOR+1.9%
DPR notes tranche A	USD	260	258	7 December 2006	15 December 2011	LIBOR+1.9%
DPR notes tranche B	EUR	230	228	7 December 2006	15 December 2011	EURIBOR+1.9%
DPR notes	USD	350	344	30 March 2006	15 March 2011	LIBOR+1.6%

17 Debt Securities Issued (Continued)

The Group is also required to deposit with designated banks funds covering the repayment of the next quarterly instalment for the notes issued under the DPR Programme (Note 9).

As at 31 December 2009 balance of notes issued under the DPR Programme and repurchased by the Group on the market amounted to USD 107 million and EUR 54 million by nominal value (2008: USD 44 million and EUR 47 million).

On 22 June 2004 the Group established a Euro Medium Term Note Programme ("MTN Programme") with a limit of the aggregate principal amount of outstanding notes issued under the MTN Programme of USD 1 000 million which was increased in November 2006 up to USD 2 000 million. Notes issued under MTN Programme are repayable at respective maturity dates.

Details on issuance of the debt securities under MTN Programme were as follows:

In millions of currency	Currency of denomi-nation	Nominal value of the issue	Issue proceeds net of transaction costs	Issue date	Maturity date	Coupon per annum, payable semi-annually
Euro Medium Term Notes	USD	400	398	24 June 2008	24 June 2013	9.25%
Euro Medium Term Notes	USD	500	498	25 June 2007	25 June 2012	8.20%

In relation to Euro Medium Term Notes issued on 24 June 2008, the noteholders have a right to require redemption of the notes at the nominal value on 24 June 2011.

As at 31 December 2009 balance of notes issued under the MTN Programme and repurchased by the Group on the market amounted to USD 260 million by nominal value (2008: USD 239 million by nominal value).

Promissory notes and domestic bonds issued comprise of securities issued by the Group with a discount to face value or with interest accrual in Russian Roubles, US Dollars and Euros and bear an effective interest rate from 0.0% to 16.8% p.a. depending on the type of issue and currency of the security (2008: from 0.0% to 12.5% p.a.).

The financial result from repurchase of debt securities issued is disclosed in Note 26.

As at 31 December 2009 and 2008 the fair values of debt securities issued determined using either market price if security is quoted or estimated using valuation techniques (Note 35) if security is unquoted were as follows:

	2009		2008	
In millions of US Dollars	Total fair value	Carrying value	Total fair value	Carrying value
Promissory notes and domestic bonds	595	579	409	412
Notes issued under the DPR Programme	345	346	696	694
Euro Medium Term Notes maturing in 2012	350	346	229	382
Euro Medium Term Notes maturing in 2013	299	294	215	303
Euro Medium Term Notes maturing in 2009	-	-	373	381
Euro-Commercial Paper Notes	-	-	219	219
Total debt securities issued	**1 589**	**1 565**	**2 141**	**2 391**

Refer to Note 35 for the discount rates used for fair valuation.

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 31.

18 Syndicated and Other Debt

In millions of US Dollars	2009	2008
Loan from the State Deposit Insurance Agency maturing on 9 December 2013	224	267
Syndicated loan maturing on 14 January 2010	71	71
Syndicated loan maturing on 23 January 2009	-	456
Syndicated loan maturing on 13 July 2009	-	249
Syndicated loan maturing on 07 July 2009	-	20
Syndicated loan maturing on 23 May 2009	-	1
Syndicated and other debt	**295**	**1 064**

On 9 December 2008 in relation to the acquisition of OJSC Bank Severnaya Kazna the Group received a RR 7 800 million loan from the State Deposit Insurance Agency. The loan is repayable in 5 instalments: four instalments of RR 1 000 million payable on 9 December each year from 2009 to 2012 and the fifth instalment of RR 3 800 million payable on 9 December 2013. The loan is secured by loans and advances to customers in the amount of USD 497 million (2008: USD 396 million) (Note 10). Interest at rate of 6.5% p.a. is payable monthly. The Group has an option to repay this loan at any time.

As at 31 December 2009 the estimated fair value of syndicated and other debt was USD 295 million (2008: USD 1 024 million).

Refer to Note 35 for the discount rates used for fair value calculation. Currency, maturity and interest rate analyses of syndicated and other debt are disclosed in Note 31.

19 Subordinated Debt

In millions of US Dollars	2009	2008
Subordinated loan from VEB maturing in 2020	964	-
Subordinated loan from VEB maturing in 2019	345	-
Subordinated notes maturing in 2017 (callable in 2012)	251	265
Subordinated notes maturing in 2015 (callable in 2010)	187	199
Total subordinated debt	**1 747**	**464**

Refer to Note 4 for details of the subordinated loans from VEB.

On 22 February 2007 the Group issued subordinated notes in the amount of USD 300 million. The notes bear a fixed interest rate of 8.635% per annum payable semi-annually from the issuance until 22 February 2012 and a floating interest rate thereafter set at a rate per annum representing the aggregate of the US Treasury Rate plus 5.46% per annum payable semi-annually until maturity on 22 February 2017. The Group has an option to repay this subordinated loan at nominal on 22 February 2012. The issue proceeds net of transaction costs were equal to USD 299 million and effective interest rate at origination was 9.0% per annum. As at 31 December 2009 the Group repurchased on the market the subordinated notes maturing in 2017 with a nominal value of USD 56 million (2008: USD 42 million).

On 9 December 2005 the Group issued subordinated notes in the amount of USD 225 million. The notes bear a fixed interest rate of 8.625% per annum payable semi-annually from the issuance until 9 December 2010 and a floating interest rate thereafter set at US Treasury Rate plus 6.3% per annum payable semi-annually until maturity on 9 December 2015. The Group has an option to repay this subordinated loan on 9 December 2010. The issue proceeds net of transaction costs were equal to USD 224 million and effective interest rate at origination was 9.0% per annum. As at 31 December 2009 the Group repurchased on the market the subordinated notes maturing in 2015 with a nominal value of USD 38 million (2008: 26 million).

The financial result from repurchase of subordinated debt is disclosed in Note 26.

19 Subordinated Debt (Continued)

As at 31 December 2009 and 2008 the fair value of subordinated debt determined using a market price if the security is quoted or estimated using valuation techniques (Note 35) for unquoted loans was as follows:

	2009		2008	
In millions of US Dollars	Total fair value	Carrying value	Total fair value	Carrying value
Subordinated loan from VEB maturing in 2020	964	964	-	-
Subordinated loan from VEB maturing in 2019	345	345	-	-
Subordinated notes maturing in 2017	238	251	134	265
Subordinated notes maturing in 2015	179	187	127	199
Total subordinated debt	**1 726**	**1 747**	**261**	**464**

Currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31.

20 Other Financial Liabilities

In millions of US Dollars	Note	2009	2008
Derivative financial instruments	34	174	533
Settlements on conversion operations		27	19
Trade creditors		31	90
Payable on operations with securities		34	86
Plastic card and other settlements with clients		16	20
Provision for losses on credit related commitments	33	13	46
Other		27	39
Total other financial liabilities		**322**	**833**

As at 31 December 2009 the fair value of each class of financial liabilities included in other financial liabilities approximated their carrying value. As at 31 December 2009 the estimated fair value of other financial liabilities was USD 322 million (2008: USD 833 million). Refer to Note 35.

Currency and maturity analyses of other financial liabilities are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

21 Other Liabilities

In millions of US Dollars	2009	2008
Accrued staff costs	100	60
Taxation payable, other than on income	13	10
Current income tax payable	5	40
Other provisions	5	-
Total other liabilities	**123**	**110**

22 Share Capital

In millions of US Dollars	2009 Number of shares, in units	2009 Total share capital, in millions of US Dollars	2008 Number of shares, in units	2008 Total share capital, in millions of US Dollars
Total share capital as at 1 January	944 800 000	945	694 800 000	695
New shares issued	320 000 000	320	250 000 000	250
Total share capital as at 31 December	**1 264 800 000**	**1 265**	**944 800 000**	**945**

On 26 June 2009 the Company issued to ABHH 320 000 000 additional new ordinary shares in exchange for cash consideration of USD 320 million.

On 30 June 2008 the Company issued to ABHH 250 000 000 additional new ordinary shares in exchange for cash consideration of USD 250 million.

As at 31 December 2009 authorised, issued and fully paid share capital of ABH Financial Limited comprised 1 264 800 000 ordinary shares (2008: 944 800 000 ordinary shares). All shares have a nominal value of USD 1 per share and rank equally. Each share carries one vote.

23 Interest Income and Expense

In millions of US Dollars	2009	2008
Interest income		
Loans and advances to corporate customers	1 683	2 062
Loans and advances to individuals	483	451
Due from other banks	194	159
Trading securities and repurchase receivables	107	125
Debt investments available for sale and repurchase receivables	52	27
Total interest income	**2 519**	**2 824**
Interest expense		
Term deposits of legal entities	(427)	(593)
Due to other banks	(419)	(251)
Term deposits of individuals	(236)	(109)
Debt securities issued	(144)	(230)
Subordinated debt	(80)	(46)
Current/settlement accounts	(73)	(116)
Syndicated and other debt	(23)	(60)
Other	(1)	(1)
Total interest expense	**(1 403)**	**(1 406)**
Expenses directly attributable to leasing and deposit insurance	(41)	(37)
Net margin	**1 075**	**1 381**

Expenses directly attributable to leasing and deposit insurance include property tax and insurance costs relating to the finance lease operations which are directly attributable to finance leasing operations and regular contributions to the State Deposit Insurance Agency.

Refer to Note 36 for details of related party transactions.

24 Fee and Commission Income and Expense

In millions of US Dollars	2009	2008
Fee and commission income		
Commission on settlement transactions	217	250
Commission on cash and foreign currency exchange transactions	57	69
Agency commission on insurance operations	19	21
Commission on guarantees issued	15	15
Commission on transactions with securities	11	8
Commission for consulting services	7	49
Commission from fiduciary activities	3	3
Other	10	6
Total fee and commission income	**339**	**421**
Fee and commission expense		
Commission on settlement transactions	(54)	(57)
Commission on transactions with securities	(12)	(4)
Commission on cash and foreign currency exchange transactions	(7)	(7)
Commission for consulting services	(7)	(6)
Commission from fiduciary activities	(1)	(2)
Other	(3)	(4)
Total fee and commission expense	**(84)**	**(80)**
Net fee and commission income	**255**	**341**

Refer to Note 36 for details of related party transactions.

25 Gains Less Losses Arising from Foreign Currencies and Precious Metals

In millions of US Dollars	2009	2008
Term deals	(16)	(132)
Spot deals	(71)	(360)
Foreign exchange translation gains less losses	43	792
Results from precious metals	(7)	(19)
Total gains less losses arising from foreign currencies and precious metals	**(51)**	**281**

26 Gains Arising from Acquisition of Own Debts

In 2009 the Group recorded gains in the amount of USD 49 million (2008: USD 139 million) from acquisition of own debts. These gains arise from differences in the prices of own debt instruments acquired from the market and their amortised cost derecognised on the date of acquisition. Please refer to Notes 17 and 19 for balances of own debt instruments acquired and held by the Group.

27 Other Operating Income

In millions of US Dollars	2009	2008
Gains from sale of acquired distressed receivables	44	-
Penalties received	8	2
Gains from disposal of repossessed collateral	7	-
Rental income	6	3
Dividend income	1	2
Revenue from sale of rights to film licenses	-	45
Gains from disposal of investment property	-	13
Other	14	14
Total other operating income	**80**	**79**

Refer to Note 36 for details of related party transactions.

28 Operating Expenses

In millions of US Dollars	Note	2009	2008
Staff costs		393	430
Rent		80	84
Depreciation	14	44	48
Expenses related to premises and equipment		43	37
Computer and telecommunications expenses		41	53
Amortisation of intangible assets	13	30	9
Consulting and professional services		29	30
Maintenance		23	25
Advertising and marketing		16	21
Administrative expenses		11	17
Taxes other than income tax		10	24
Travel expenses		5	9
Other		22	26
Total operating expenses		**747**	**813**

Staff costs include contributions to the Russian state pension plan made by the Group for its personnel employed in Russia in the amount of USD 20 million (2008: USD 33 million). The state pension plan is classified as a defined contribution plan because the Group does not have any legal or constructive obligation to make further contributions if the state pension plan would not hold sufficient assets to pay all employee benefits relating to employees' past service. Included within staff costs are long-term bonuses in the amount of USD 26 million (2008: USD 9 million), which are payable at least one year after end of the reporting period.

Included in expenses related to premises and equipment is negative revaluation of some of the Group's premises (in excess of the revaluation previously recorded in other comprehensive income) in the amount of USD 20 million (2008: nil).

Refer to Note 36 for details of related party transactions.

29 Income Taxes

Income tax expense comprises the following:

In millions of US Dollars	2009	2008
Current tax	13	148
Deferred tax	34	23
Income tax expense for the year	**47**	**171**

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 20% (2008: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 15% (2008: from 0% to 15%).

On 26 November 2008 the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented below represents the effect of applying the enacted tax rate of 20% to deferred tax balances as at 31 December 2008.

In millions of US Dollars	2009	2008
IFRS profit before tax	**124**	**401**
Theoretical tax charge at the statutory rate (2009: 20%; 2008: 24%)	25	96
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	7	13
- Income taxed at different rates	(1)	(4)
- Loss incurred/(income) earned in low tax jurisdictions	13	(47)
- Impact of change in tax rate to 20% effective from 1 January 2009	-	(1)
- Effect of change in estimates relating to deductibility of provision for loan impairment (Note 4)	-	114
- Unrecognised tax loss carried forward	3	-
Income tax expense for the year	**47**	**171**

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement of these temporary differences is detailed below and recorded mainly at the rate of 20% (2008: 20%), except for income on state securities that is taxed at 15% and dividend income that is taxed at 9%.

In millions of US Dollars	31 December 2008	Translation movement recorded in other comprehensive income	Recorded in profit or loss	Recorded in other comprehensive income	31 December 2009
Tax effect of deductible temporary differences					
Accruals	14	1	24	-	39
Investments available for sale	14	(1)	(2)	(11)	-
Tax loss carried forward	-	1	18	-	19
Fair value adjustments on origination of financial assets	-	-	14	-	14
Trading securities	6	-	(6)	-	-
Other impairment provisions	9	-	-	-	9
Derivative financial	1	1	14	-	16
Gross deferred tax asset	**44**	**2**	**62**	**(11)**	**97**
Deferred tax netted off within individual entities	(20)	-	(40)	-	(60)
Deferred tax asset	**24**	**2**	**22**	**(11)**	**37**

29 Income Taxes (Continued)

In millions of US Dollars	31 December 2008	Translation movement recorded in other comprehensive income	Recorded in profit or loss	Recorded in other comprehensive income	31 December 2009
Tax effect of taxable temporary differences					
Premises and equipment	(37)	1	(8)	4	(40)
Intangible assets and other fair value adjustments	(9)	-	-	-	(9)
Investment available for sale	-	-	(2)	(8)	(10)
Investments at fair value through profit or loss	(8)	-	(4)	-	(12)
Provision for loan impairment	(5)	(4)	(81)	-	(90)
Other	-	-	(1)	-	(1)
Gross deferred tax liability	**(59)**	**(3)**	**(96)**	**(4)**	**(162)**
Deferred tax netted off within individual entities	20	-	40	-	60
Deferred tax liability	**(39)**	**(3)**	**(56)**	**(4)**	**(102)**
Total net deferred tax liability	**(15)**	**(1)**	**(34)**	**(15)**	**(65)**

In millions of US Dollars	31 December 2007	Translation movement recorded in other comprehensive income	Business combi-nation	Recorded in profit or loss	Recorded in other comprehen-sive income	31 December 2008
Tax effect of deductible temporary differences						
Accruals	21	(3)	2	(6)	-	14
Investments available for sale	-	-	-	3	11	14
Provision for loan impairment	33	(4)	13	(42)	-	-
Trading securities	1	(1)	-	6	-	6
Other impairment provisions	7	(1)	-	3	-	9
Derivative financial instruments	-	-	-	1	-	1
Gross deferred tax asset	**62**	**(9)**	**15**	**(35)**	**11**	**44**
Deferred tax netted off within individual entities	-	-	-	(20)	-	(20)
Deferred tax asset	**62**	**(9)**	**15**	**(55)**	**11**	**24**
Tax effect of taxable temporary differences						
Premises and equipment	(49)	8	(18)	18	4	(37)
Intangible assets and other fair value adjustments	-	1	(10)	-	-	(9)
Investments at fair value through profit or loss	-	-	-	(8)	-	(8)
Provision for loan impairment	-	-	-	(5)	-	(5)
Investment property	(7)	-	-	7	-	-
Gross deferred tax liability	**(56)**	**9**	**(28)**	**12**	**4**	**(59)**
Deferred tax netted off within individual entities	-	-	-	20	-	20
Deferred tax liability	**(56)**	**9**	**(28)**	**32**	**4**	**(39)**
Total net deferred tax asset/(liability)	**6**	**-**	**(13)**	**(23)**	**15**	**(15)**

29 Income Taxes (Continued)

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

Deferred tax effects relating to each component of other comprehensive income are as follows:

In millions of US Dollars	**2009** Before tax amount	**2009** Income tax (expense) / credit	**2009** Net of tax amount	**2008** Before tax amount	**2008** Income tax (expense) / credit	**2008** Net of tax amount
Available for sale investments:						
- Gains less losses during the year	85	(16)	69	(61)	12	(49)
- Reclassification adjustments for losses included in profit or loss	33	(3)	30	5	(1)	4
Revaluation of premises	(19)	4	(15)	(5)	4	(1)
Effect of translation of the financial statements to US Dollars as presentation currency	(6)	-	(6)	(390)	-	(390)
Net change in hedge of net investment in foreign operations	61	-	61	249	-	249
Share of other comprehensive income of associates	-	-	-	(1)	-	(1)
Other comprehensive income	**154**	**(15)**	**139**	**(203)**	**15**	**(188)**

30 Segment Analysis

The Group's reportable segments are strategic business units that offer different products and services:

- Corporate and investment banking - comprises corporate lending, leasing, corporate deposit services, trade finance operations and structured corporate lending, securities trading, debt and equity capital markets services, derivative products, corporate finance advisory services and merger and acquisition advice. Corporate and investment banking were merged at the beginning of 2009 in order to create new client services, reduce operating costs and improve cross-selling opportunities.
- Retail banking - comprises retail demand and term deposit services, credit and debit card services, retail lending (including consumer loans and personal instalment loans, car loans and mortgages), money transfers and private banking services.
- Treasury - comprises the Group's wholesale funding, internal funding reallocation, liquidity and risk management activities.

These segments are managed separately because each of them requires formulating a different strategy and uses different operational platforms. The Group evaluates segment performance on the basis of profit or loss before tax. Segment performance is regularly reviewed by the CODM.

Segment financial information reviewed by the CODM includes loans and advances to customers of Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan (prior to its disposal in June 2009, Note 1), but not their results and other items in the statement of financial position. A significant position of the loans and advances to customers and customer accounts originated by OJSC Bank Severnaya Kazna has already been transferred to Alfa-Bank and is included in segment financial information, but remaining assets, liabilities and all results of OJSC Bank Severnaya Kazna are not included in segment information. Regular review of these subsidiary banks is delegated to the local management teams. The CODM obtains financial statements of Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan. Such financial information overlaps with segment analysis provided internally to the CODM. Management therefore applied the core principle of IFRS 8, Operating Segments, in determining which of the overlapping financial information sets should form the basis of operating segments. Management considered that information on subsidiary banks is available less frequently in concluding that segments exclude details of the subsidiaries other than information about their loan portfolios.

30 Segment Analysis (Continued)

The accounting policies of the operating segments are materially the same as those described in the summary of significant accounting policies except for: (i) the fair value changes in available for sale securities that are reported within the segments' profits or losses rather than in other comprehensive income; (ii) use of a transfer pricing system, (iii) different classification of certain lines of income and expenses and (iv) some balances and operations are excluded from segment analysis since they are monitored separately and on a less regular basis (including situations when balance is not allocated and related income or expense are allocated for the segment analysis and vice versa). In accordance with the transfer pricing system used by the Group funds are generally reallocated at internal interest rates set by the Treasury Department of the Group, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances.

Segment information for the reportable business segments of the Group for the year ended 31 December 2009 is set out below:

In millions of US Dollars	Corporate and Investment banking	Retail banking	Treasury	Total
2009				
Segment revenues				
External revenues				
Interest income	1 582	473	82	2 137
Fee and commission income	135	188	10	333
Other operating income	78	18	-	96
Total external revenues	**1 795**	**679**	**92**	**2 566**
Interest income from other segments	422	367	1 943	2 732
Total segment revenues	**2 217**	**1 046**	**2 035**	**5 298**
Interest expense to other segments	(1 037)	(321)	(1 317)	(2 675)
Gains less losses from investments	201	-	64	265
Gains less losses from foreign currencies	21	10	(87)	(56)
Interest expense	(295)	(213)	(783)	(1 291)
Provision for loan impairment	(430)	(124)	-	(554)
Fee and commission expenses	(22)	(65)	(5)	(92)
Other provisions	26	-	-	26
Operating expenses	(159)	(276)	(11)	(446)
Allocated operating expenses	(72)	(77)	(7)	(156)
Segment profit before tax	**450**	**(20)**	**(111)**	**319**
31 December 2009				
Segment assets	**11 933**	**1 977**	**3 244**	**17 154**
Segment liabilities	**6 189**	**4 334**	**4 745**	**15 268**

Segment assets and liabilities are reported to the CODM net of inter-segment assets and liabilities.

30 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is set out below:

In millions of US Dollars	Corporate and Investment banking	Retail banking	Treasury	Total
2008				
Segment revenues				
External revenues				
Interest income	1 968	453	327	2 748
Fee and commission income	180	216	18	414
Other operating income	14	1	-	15
Total external revenues	**2 162**	**670**	**345**	**3 177**
Interest income from other segments	615	247	2 003	2 865
Total segment revenues	**2 777**	**917**	**2 348**	**6 042**
Interest expense to other segments	(1 277)	(274)	(1 351)	(2 902)
Gains less losses from investments	(11)	-	-	(11)
Gains less losses from foreign currencies	32	10	153	195
Share of results and impairment of associates	(11)	-	-	(11)
Interest expense	(447)	(88)	(734)	(1 269)
Provision for loan impairment	(617)	(101)	-	(718)
Fee and commission expenses	(13)	(65)	(13)	(91)
Other provisions	(22)	-	-	(22)
Operating expenses	(182)	(348)	(14)	(544)
Allocated operating expenses	(84)	(92)	(11)	(187)
Segment profit before tax	**145**	**(41)**	**378**	**482**
31 December 2008				
Segment assets	**15 109**	**2 590**	**3 936**	**21 635**
Segment liabilities	**6 904**	**2 745**	**10 669**	**20 318**

A reconciliation of the revenue for reportable segments to the Group's total revenue for the year is as follows:

In millions of US Dollars	2009	2008
Segment revenues	**5 298**	**6 042**
Interest income from other segments	(2 732)	(2 865)
Subsidiary banks' external revenues	158	216
Other non-reportable segments' unallocated amounts	31	(25)
Differences in translation to presentation currency	(7)	(27)
Revenues related to the Group's business in the Ukraine (monitored separately)	51	41
Gain less losses from interest rate derivatives reported within segment revenues	118	(116)
Revenue from significant non-recurring transactions unallocated to segments	21	58
Total Group's revenues	**2 938**	**3 324**
Interest income	2 519	2 824
Fee and commission income	339	421
Other operating income	80	79
Total Group's revenues	**2 938**	**3 324**

30 Segment Analysis (Continued)

A reconciliation of the profit for reportable segments to the Group's total profit for the year is as follows:

In millions of US Dollars	2009	2008
Segments' profit before tax for the year	**319**	**482**
Differences in provision for loan impairment (except related to subsidiary banks)	195	(237)
Provision for loan impairment related to the Group's business in the Ukraine	(49)	(4)
Subsidiary banks' (loss) / profit before tax	(186)	29
Other non-reportable segments' unallocated results	(21)	9
Differences in translation to presentation currency	24	30
Fair value gains on revaluation of investments unallocated to segments	6	22
Revenue from significant non-recurring transactions unallocated to segments	21	58
Staff costs accruals unallocated to segments	(75)	(44)
Gains less losses on available for sale investments recorded in the statement of comprehensive income	(105)	56
Loss on disposal of subsidiaries unallocated to segments	(5)	-
Profit before tax for the year	**124**	**401**

Reportable segments' assets are reconciled to total assets as follows:

In millions of US Dollars	2009	2008
Segments' assets	**17 154**	**21 635**
Items unallocated to segments:		
Assets related to subsidiary banks	2 523	2 061
Assets related to the Group's business in the Ukraine (monitored separately)	251	405
Cash on hand and settlement accounts with trading systems	637	892
Mandatory cash balances with central banks	150	79
Other financial assets	251	1 195
Other assets	277	371
Premises and equipment	366	390
Deferred tax asset	37	24
Total Group's assets	**21 646**	**27 052**

Reportable segments' liabilities are reconciled to total liabilities as follows:

In millions of US Dollars	2009	2008
Segments' liabilities	**15 268**	**20 318**
Items unallocated to segments:		
Liabilities related to subsidiary banks	3 133	3 590
Other financial liabilities	322	833
Other liabilities	123	110
Deferred tax liability	102	39
Total Group's liabilities	**18 948**	**24 890**

30 Segment Analysis (Continued)

Reportable segments' interest income is reconciled to total interest income as follows:

In millions of US Dollars	2009	2008
Segments' interest income	**2 136**	**2 748**
Items unallocated to segments:		
Interest income related to subsidiary banks	144	200
Fair value gains less losses from interest rate derivatives reported within segment revenues	118	(116)
Interest income related to the Group's business in the Ukraine	57	18
Fair value adjustments related to purchase price allocation for an acquired subsidiary bank	36	-
Revenue from significant non-recurring transactions unallocated to segments	21	-
Other non-reportable segments' interest income	6	8
Differences in translation to presentation currency	3	(28)
Other	(2)	(6)
Total Group's interest income	**2 519**	**2 824**

Reportable segments' interest expense is reconciled to total interest expense as follows:

In millions of US Dollars	2009	2008
Segments' interest expense	**(1 291)**	**(1 269)**
Items unallocated to segments:		
Interest expense related to subsidiary banks	(147)	(177)
Expenses directly attributable to leasing and deposit insurance	41	37
Other non-reportable segments' interest expense	3	(4)
Differences in translation to presentation currency	(11)	2
Other	2	5
Total Group's interest expense	**(1 403)**	**(1 406)**

Reportable segments' provision for loan impairment is reconciled to total provision for loan impairment as follows:

In millions of US Dollars	2009	2008
Segments' provision for loan impairment	**(554)**	**(718)**
Provision for loan impairment related to subsidiary banks	(161)	3
Provision for loan impairment related to the Group's business in the Ukraine	(49)	(4)
Translation movement (including related to subsidiary banks)	(35)	-
Reversal of / (provision for loan impairment unallocated to segments)	210	(237)
Total Group's provision for loan impairment	**(589)**	**(956)**

30 Segment Analysis (Continued)

Reportable segments' operating expenses are reconciled to total Group's operating expenses as follows:

In millions of US Dollars	2009	2008
Segments' operating expenses and allocated operating expenses	**(602)**	**(731)**
Items unallocated to segments:		
Operating expense related to subsidiary banks	(74)	(27)
Staff costs accruals unallocated to segments	(75)	(44)
Differences in translation to presentation currency	2	(3)
Other	2	(8)
Total Group's operating expenses	**(747)**	**(813)**

The Group's revenues for external customers are analysed by products and services in Notes 23, 24 and 27.

The majority of the Group's revenues from external customers are attributed to customers domiciled in the Russian Federation. Revenues from external customers domiciled in other countries are below the threshold for separate disclosure in these consolidated financial statements.

31 Financial Risk Management

The Group systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. The Group applies across all product lines a unified risk management practice comprising credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of the Group's risk management is to achieve an optimal level of risk-return for its operations.

The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Group's exposure to internal and external risk factors other than those from financial instruments.

The Group's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification, and (iii) risk assessment, management and control.

Risk governance. The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and approving significantly large exposures.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Executive Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks.

Credit, market and liquidity risks at both portfolio and transaction levels are managed and controlled through a system of Credit Committees and through the Treasury Department, the Risk Management Department, the Retail Risk Management Department and Asset and Liability Management Committee ("ALCO"). In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure. The Risk Management Department deals with credit risk for corporate clients, financial institutions, small and medium-size enterprises, mortgages along with market risk and operational risk. The Retail Risk Management Department deals with credit cards and personal instalment loans, car loans and consumer loans portfolios. In 2009 the Group set up the Problem Loans Department and the Problem Loans Committee to improve the workout and the collection of problem loans to corporate customers. The Problem Loans Committee considers and approves the strategy of problem loans workout. The Problem Loan Department implements the approved strategy. These units report to the Head of Corporate and Investment Banking (Note 30) and the Main Credit Committee.

31 Financial Risk Management (Continued)

Amsterdam Trade Bank N.V. (ATB) has its own Risk Management and Treasury Departments. For purpose of execution of operations with financial instruments Amsterdam Trade Bank N.V. follows the Investment Policy approved by its Board of Directors. The financial risk management of OJSC Bank Severnaya Kazna is performed centrally by Alfa-Bank. OJSC Bank Severnaya Kazna is not authorised to perform unilateral treasury and lending management functions.

Risk identification. Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of the Group.

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

There were no significant changes to the system of risk management in year 2009 compared to year 2008. Since the beginning of the financial crisis the Group had been modifying the risk management policies and procedures to minimize the adverse impact of the crisis on the Group's business.

Credit risk. The Group takes on exposure to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry sectors, etc. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board regularly approves limits on the level of credit risk by product, borrower and industry sectors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

The analysis by credit quality of financial assets is based on their stratification by set limits: higher limits are assigned to the counterparties whose credit quality is better.

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

The Group defines its risk appetite by approving a Lending Policy, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions. The Lending Policy sets forth the framework for monitoring exposure to credit risk, including portfolio concentration limits and definition of responsibilities. During year 2008 the Lending Policy was revised by tightening the rules and increasing risk margins. Throughout year 2009 the Group revised its Lending Policy on a quarterly basis to ensure conformity with the current risk and market conditions.

The Group's credit committees are responsible for approving credit exposures. Each credit committee conducts its activity based on special instructions approved by the Board of Directors.

- Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees. The ceiling of risk level is approved by the Executive Board. These committees convene weekly and their members are representatives of the Credit Department, the Risk Management Department, the Legal Department, Treasury Department and other relevant departments. The membership of the committees reflects the balanced approach to credit risk undertaken. The most material transactions above USD 100 million have to be approved by the Executive Board. In certain circumstances (for example, based on tenure or size) loans approved by the Main Credit Committee are required to be approved by the Executive Board or Board of Directors.

31 Financial Risk Management (Continued)

- The Retail Credit committee monitors the performance of the retail portfolio and trends for future consideration. The retail lending portfolio includes the following classes of loans to individuals: credit cards and personal instalment loans, car loans, consumer loans. The Retail Credit committee approves new retail credit products, effective margins on all retail products, controls the provisioning level for the retail portfolio and write offs for the retail portfolio, makes other decisions regarding retail lending. The committee convenes monthly and its members are representatives of all key retail departments of the Group.

Credit Process. In corporate wholesale lending, all transactions undergo a standardized underwriting procedure, including a thorough examination of a prospective borrower's creditworthiness, quality of proposed collateral and transaction's structure compliance with the Group's policies and limits.

The Credit Department examines a probable transaction thoroughly with special attention being paid to the analysis of financial stability, cash-flow adequacy, long-term viability, credit history, competitive position and quality of collateral. During 2009 the Group tightened the requirements regarding the borrowers' creditability. Though the methodologies were not changed significantly, the borrowers' cash-flow, robustness and stability, business model viability and industry prospects were analysed even more scrupulously than before. Based on the assessment of the transaction's and borrower's risks, an internal rating is assigned to the borrower, collateral provided and the transaction as a whole.

The rating assignment is governed by an internal rating methodology. In accordance with the internal rating methodology the transaction is assigned a rating category from I to V.

- Rating I - high quality credit transaction; the given rating is characterized by minimum credit risk of the transaction due to a great safety cushion of cash flows of the borrower and analyzed transaction combined with high quality collateral;
- Rating II - standard quality credit transaction; assignment of such rating usually means low probability of default on such transactions due to an optimal combination of quality of cash flows of the borrower and analyzed transaction and proper collateral;
- Rating III - stable quality credit transaction; assignment of such rating usually means acceptable quality of cash flows of the borrower and analyzed transaction and/or collateral;
- Rating IV - low quality credit transaction; such transactions have rather high probability of default because of their poor quality and the lack or poor quality of collateral; and
- Rating V - non-viable transaction; credit risk of the transaction is estimated as high, the incentive to grant such loans usually lie beyond the usual parity of risk and rewards. The Group does not enter into transactions with initial rating V.

The Risk Management Department reviews the analysis and the appropriateness of the ratings assignment and draws a conclusion. The conclusion of the Risk Management Department and the financial analysis of the client are given to the consideration of the relevant Credit Committee. The Credit Committees review the loan applications for approval of a credit limit on the basis of information provided. A limit is proposed to accommodate the exposure to a client within the guidelines set for maximum customer exposure and concentration limits.

For the purposes of the credit risk management, the Group stratified the loan portfolio to the following pools:

- Current loans pool includes current loans and loans technically overdue for less than 14 days.
- Watch-list loans pool includes loans overdue for less than 14 days which demonstrated deterioration of credit quality.
- Problem loans pool includes loans with signs of impairment and loans overdue for more than 14 days, which however could be partially recovered.
- Defaulted loans pool includes loans where recovery requires foreclosure of collateral, commencement of litigation procedures.

31 Financial Risk Management (Continued)

Throughout the year 2009 transaction controls were strengthened. On a quarterly basis the Risk Management Department reviewed the internal ratings of the borrowers with exposure over a certain percentage of capital. The Group limited the issue of loans to borrowers with the best internal credit quality ratings.

Due to the nature of retail business, the Retail Risk Management Department has different risk management processes. Retail lending decisions are based on acceptance through use of credit and fraud scores. The application and fraud scores are bespoke developments based on internal lending performance history. Therefore the scores can be developed only based on historical performance which is available only after a statistically significant number of transactions. The scores are administered in a secure automated technology environment, all approve/decline decisions are subject to risk determined cut offs, and no overrides are permitted. The scores are monitored for their stability and effectiveness every month and suitable amendments are made should there be a need.

In 2009 the retail lending procedures were changed as a reaction to the instability of the economic climate: tighter score acceptance cut offs for specific industry sectors; lowering credit limits and permissible debt burden ratios; and stricter verification standards before approval; stricter minimum acceptance policy criteria; curtailment of long tenure loans and more conservative assessment of cross-selling activities.

Monitoring. The level of credit risk exposure of the Group is subject to a monitoring process.

Exposure to credit risk is managed by the Credit Department through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Credit Department identifies potentially problematic deals using an unambiguous set of criteria to assign a problem status to a transaction, as well as escalation procedures based on problem status. Any significant exposures to a customer with a deteriorating creditworthiness are reported to and reviewed by the relevant Credit Committee.

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

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

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee, as well as situations where limits utilization is close to maximum. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with the Group's risk appetite and portfolio limit structure. Throughout the year 2009 the Group paid much attention to the workout of problem loans, which were subject to weekly reporting to the Main Credit Committee.

On a weekly basis the Committee for Collection of Corporate Overdue Loans monitors the problem loans: the perspectives of repayment, repossessing collateral, legal processes on collection cases, restructuring terms, claiming for additional collateral to secure loans.

Control. There is a control environment established in the Group, in which all of its activities relating to credit exposure are taking place. The purpose of the implemented controls is to ensure a strict adherence to the Group's policies and procedures.

The Group has implemented control mechanisms that promote the delivery of effective risk management. Such mechanisms include: (i) producing regular portfolio monitoring reports and regularly presenting those to the relevant Credit Committees, (ii) setting credit policy core principles that govern the detailed department-level policies, (iii) subjecting policies to regular review, (iv) establishing lending guidelines that provide for a disciplined and focused approach to decision-making, (v) using statistically-based decision-making techniques such as credit scoring for retail portfolios, and (vi) continuous monitoring by the Risk Management Department to measure effectiveness and administer changes as required.

31 Financial Risk Management (Continued)

In order to improve the collection of loans to individuals and to control delinquencies more effectively during 2009, the Retail Risk Management Department introduced collection scorecards across different stages of collection process and implemented closer monitoring of collection cure rates within different segments.

Credit risk mitigation. The Group uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis.

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

Credit exposure is a subject of active management. Procedures are in place that ensure timely recognition and prompt reaction to transactions showing signs of deterioration. Responses include reduction of the exposure, obtaining additional collateral, restructuring, or other steps, as appropriate.

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

At a portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity concentration limit, (iv) unsecured lending limit and (v) internal rating limit. In 2009 the latter two limits were introduced as non-obligatory but subject to monitoring and reporting. Portfolio concentration limits are set to protect against unwanted concentration risk.

The amount of the Group's maximum exposure to credit risk is reflected in the carrying value of financial assets on the consolidated statement of financial position. For issued guarantees and other credit related commitments the amount of maximum exposure to credit risk equals to the amount of commitment.

Analysis of maximum amount exposed to credit risk as at 31 December 2009 and 31 December 2008 was as follows:

In millions of US Dollars	**Note**	**2009**	**2008**
Cash and cash equivalents (excluding cash on hand balances)	7	1 460	3 069
Mandatory cash balances with central banks		150	79
Debt trading securities	8	1 325	571
Repurchase receivables relating to trading securities	8	-	151
Due from other banks	9	2 270	1 837
Loans and advances to customers	10	13 449	17 970
Debt investments available for sale	11	1 009	317
Repurchase receivables relating to investments	11	-	215
Other financial assets	12	234	892
Cross guarantees	33	905	1 848
Guarantees issued	33	790	697
Import letters of credit	33	84	460
Total maximum amount exposed to credit risk		**21 676**	**28 106**

As at 31 December 2009 the amount of exposure to credit risk in relation to other financial assets was reduced by margin call deposits received from other banks and customers in the total amount of USD 238 million (2008: USD 303 million). Refer to Notes 15 and 16.

As at 31 December 2009 the amount of exposure to credit risk in relation to issued import letters of credit was reduced by the collateral received from customers in the amount of USD 15 million (2008: USD 33 million). Refer to Note 16.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

31 Financial Risk Management (Continued)

The Group manages its market risk through notional-based and risk-based limits for the Group’s sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions, (ii) Investment Banking position and (iii) Treasury position. The exposure of Corporate Banking (loans, deposits, current accounts, and other non-trading operations) and Retail Banking operations to market risks is managed through the system of limits monitored by the Treasury Department. The exposure to the market risk of Investment Banking operations is managed through market value, value at risk (“VaR”) limits and extreme loss limits which are set for both aggregated position of Investment Banking in equities, fixed income, foreign currency and derivative instruments (treated as separate “trading desks”) and for individual trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. Both the Group’s proprietary and trading portfolios consist predominantly of liquid, traded securities. For content of the trading portfolio refer to Note 8. The Group’s derivative operations are driven by two major factors: (i) the need of the Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (ii) customer demand, principally for foreign currency, securities and commodities derivatives.

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, fixed income, derivatives) trading desks. The overall VaR of Investment Banking is monitored on a weekly basis by the Risk Management Department. The limit for the overall 1-day, 99% confidence level VaR is USD 15 million (2008: USD 10 million). However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

During 2009 the following changes were made in market risk management: position limits review by ALCO (limits for fixed income instruments and overall VaR limit were increased), collateral parameters review.

Equity price risk. As noted above, for the purpose of quantifying the Group’s equity price risks which is attributed to Investment Banking position only, the Group uses a VaR model.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- One business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR;
- As VaR is only calculated on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day; and
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

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

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of Group’s position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

The daily equity price VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Group were to be held unchanged for one business day.

31 Financial Risk Management (Continued)

According to the assessments made by the Group as at 31 December 2009 and 2008 VaR estimates in respect of equity price risk do not exceed USD 10 million. The VaR measure of the exposure of the net equity position to market price fluctuations is not material: the long balance sheet position in equity instruments disclosed within trading securities and repurchase receivables is to considerable extent covered by the opposite position in equity derivatives.

Currency risk. In respect of currency risk, the Treasury Department of the Group is responsible for the centralised management of the currency risk of the Group. ALCO sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by the Treasury Department of the Group based on the management reports provided on open currency position. The Group uses derivatives to manage current and forecast exposures resulting from foreign currencies. The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2009:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	311	1 127	511	17	-	1 966
Mandatory cash balances with central banks	-	107	43	-	-	150
Trading securities	461	384	480	-	47	1 372
Due from other banks	651	842	773	4	-	2 270
Loans and advances to customers	6 703	6 023	645	78	-	13 449
Investments	344	660	5	-	499	1 508
Other financial assets	144	90	14	3	-	251
Other assets	6	95	14	-	162	277
Premises and equipment	-	-	-	-	366	366
Deferred tax asset	-	-	-	-	37	37
Total assets	**8 620**	**9 328**	**2 485**	**102**	**1 111**	**21 646**
Liabilities						
Due to other banks	170	612	244	82	-	1 108
Customer accounts	3 135	6 791	3 750	10	-	13 686
Debt securities issued	952	310	303	-	-	1 565
Syndicated and other debt	71	224	-	-	-	295
Subordinated debt	438	1 309	-	-	-	1 747
Other financial liabilities	135	103	83	1	-	322
Other liabilities	104	9	10	-	-	123
Deferred tax liability	-	-	-	-	102	102
Total liabilities	**5 005**	**9 358**	**4 390**	**93**	**102**	**18 948**
Net balance sheet position	**3 615**	**(30)**	**(1 905)**	**9**	**1 009**	**2 698**
Net balance sheet position less fair value of foreign exchange derivatives	**3 631**	**(3)**	**(1 907)**	**9**	**1 009**	**2 739**
Derivatives (Note 34)	**(910)**	**(547)**	**1 443**	**(27)**	**-**	**(41)**
Net balance sheet and derivatives position as at 31 December 2009	**2 721**	**(550)**	**(464)**	**(18)**	**1 009**	**2 698**

31 Financial Risk Management (Continued)

The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2008:

In millions of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	2 311	1 107	418	24	-	3 860
Mandatory cash balances with central banks	-	26	49	4	-	79
Trading securities	286	101	154	30	17	588
Repurchase receivables relating to trading securities	37	114	-	-	-	151
Due from other banks	804	809	224	-	-	1 837
Loans and advances to customers	8 518	8 099	1 250	103	-	17 970
Investments	114	203	-	-	55	372
Repurchase receivables relating to investments	18	197				215
Other financial assets	791	253	147	4	-	1 195
Other assets	8	175	10	-	178	371
Premises and equipment	-	-	-	-	390	390
Deferred tax asset	-	-	-	-	24	24
Total assets	**12 887**	**11 084**	**2 252**	**165**	**664**	**27 052**
Liabilities						
Due to other banks	1 025	5 815	453	114	-	7 407
Customer accounts	2 983	5 603	3 866	130	-	12 582
Debt securities issued	1 718	292	375	6	-	2 391
Syndicated and other debt	796	268	-	-	-	1 064
Subordinated debt	464	-	-	-	-	464
Other financial liabilities	649	86	96	2	-	833
Other liabilities	42	52	16	-	-	110
Deferred tax liability	-	-	-	-	39	39
Total liabilities	**7 677**	**12 116**	**4 806**	**252**	**39**	**24 890**
Net balance sheet position	**5 210**	**(1 032)**	**(2 554)**	**(87)**	**625**	**2 162**
Net balance sheet position less fair value of foreign exchange derivatives	**5 016**	**(1 043)**	**(2 627)**	**(88)**	**625**	**1 883**
Derivatives (Note 34)	**(3 356)**	**812**	**2 630**	**193**	**-**	**279**
Net balance sheet and derivatives position as at 31 December 2008	**1 660**	**(231)**	**3**	**105**	**625**	**2 162**

Derivatives represent the fair value, as at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 34.

31 Financial Risk Management (Continued)

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations (Note 4). For the purpose of currency risk sensitivity analysis the Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

- Russian Rouble zone (includes all Russian Federation subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes all other foreign subsidiaries operating internationally).

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the profit or loss for the year. Risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Group is excluded from the sensitivity analysis.

As the Group's exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures (Note 34), in performing sensitivity analysis the Groups includes its net position in other currencies into the net position in US Dollars. As at 31 December 2009 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	1 933	-	(1 118)
Euro zone	-	(404)	(5)
US Dollar zone	(1 015)	290	-
Total exposure	**918**	**(114)**	**(1 123)**

As at 31 December 2009 if either of USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would have affected the profit or loss for the year (pre-tax) of the Group in the following way:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 10% change in all foreign exchange rates	92	(11)	(112)
- 10% change in all foreign exchange rates	(92)	11	112

As at 31 December 2008 the Group's net currency position including foreign currency derivatives was as follows:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	1 700	-	233
Euro zone	-	(117)	-
US Dollar zone	(764)	393	-
Total exposure	**936**	**276**	**233**

At 31 December 2008 if USD/RR, USD/EUR and EUR/RR rate changed by +/-30% respectively, this would affect the profit or loss for the year (pre-tax) of the Group in the following way:

In millions of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 30% change in all foreign exchange rates	281	83	70
- 30% change in all foreign exchange rates	(281)	(83)	(70)

31 Financial Risk Management (Continued)

Interest rate risk. The Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and debt securities in issue at fixed or variable interest rates. Due to changes in interest rates, the Group's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. One of the Group's objectives is to minimize losses from unexpected negative changes in interest margins.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
31 December 2009						
Total financial assets	7 251	3 460	1 657	8 052	546	20 966
Total financial liabilities	(8 418)	(4 279)	(1 728)	(4 298)	-	(18 723)
Effect of interest based derivatives	1 242	(139)	(20)	(1 083)	-	-
Net interest sensitivity gap as at 31 December 2009	**75**	**(958)**	**(91)**	**2 671**	**546**	**2 243**
31 December 2008						
Total financial assets	9 524	6 375	2 780	7 516	72	26 267
Total financial liabilities	(11 729)	(7 640)	(2 648)	(2 724)	-	(24 741)
Effect of interest based derivatives	1 262	678	(129)	(1 811)	-	-
Net interest sensitivity gap as at 31 December 2008	**(943)**	**(587)**	**3**	**2 981**	**72**	**1 526**

Refer to Note 34 for the information on interest rate derivatives used to manage the Group's interest rate exposure.

The Group's interest rate risk is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management unit of the Treasury Department. ALCO sets sensitivity limits in terms of "present value to 100 basis points interest rate shift" which measures the impact of a 100 basis points rise of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. ALCO sets such limits for the Group's Russian Rouble, US Dollar and Euro positions and for the Group's overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies and interest rate derivatives such as USD and RR interest swaps.

During 2009 the Treasury Department implemented additional interest rate risk measure "Earnings-at-Risk to 100 basis points interest rate shift" which measured the impact on the interest revenue for the nearest year of a 100 basis points rise of interest rates along the various maturities on the yield curve.

For the year ended 31 December 2009, if interest rates at that date had been 100 basis points lower, with all other variables held constant, pre-tax profit would have been USD 7 million lower (2008: USD 40 million higher based on 300 basis points shift), mainly as a result of lower interest income on loans and advances to customers (2008: mainly as a result of lower interest expense on short-term and variable rate liabilities). Other components of equity (also pre-tax) would have been USD 9 million higher (2008: USD 7 million higher based on a 300 basis points shift), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale.

31 Financial Risk Management (Continued)

If interest rates had been 100 basis points higher, with all other variables held constant, pre-tax profit for the year would have been USD 7 million higher (2008: USD 40 million lower based on 300 basis points shift), mainly as a result of higher interest income on loans and advances to customers (2008: lower, mainly as a result of higher interest expense on short-term and variable rate liabilities). Other components of equity (also pre-tax) would have been USD 9 million lower (2008: USD 7 million lower based on a 300 basis points shift) lower, as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2009				2008			
In % per annum	**USD**	**RR**	**Euro**	**Other**	**USD**	**RR**	**Euro**	**Other**
Assets								
Cash balances with central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Correspondent accounts and overnight placements with other banks	0.2	1.7	0.1	0.1	0.0	0.0	1.8	0.0
Mandatory cash balances with central banks	-	0.0	0.0	-	-	0.0	0.0	0.0
Debt trading securities	6.9	11.7	3.5	-	7.7	10.1	4.4	6.6
Repurchase receivables relating to debt trading securities	-	-	-	-	7.2	7.8	-	-
Due from other banks	9.8	5.9	1.1	0.0	0.9	20.6	1.9	-
Loans and advances to customers	11.5	16.2	9.2	13.8	12.3	16.8	9.9	12.4
Debt investments available for sale	5.7	8.8	8.3	-	8.1	6.9	-	-
Repurchase receivables relating to debt securities available for sale	-	-	-	-	7.5	6.2	-	-
Liabilities								
Due to other banks	2.2	8.4	3.1	1.0	5.8	10.9	5.3	2.7
Customer accounts								
- current and settlement accounts	0.3	0.5	0.1	0.0	1.4	0.8	4.3	0.0
- term deposits	4.9	9.5	4.9	3.4	7.6	10.5	6.8	8.7
Debt securities issued	7.2	4.6	4.3	-	7.5	10.5	6.1	12.0
Syndicated and other loans	2.3	6.7	-	-	4.1	6.5	-	-
Subordinated debt	9.0	9.5	-	-	9.0	-	-	-

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

31 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's assets and liabilities at 31 December 2009 is disclosed in table below:

In millions of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	1 174	614	35	133	10	1 966
Mandatory cash balances with central banks	107	43	-	-	-	150
Trading securities	941	356	75	-	-	1 372
Due from other banks	442	1 182	320	298	28	2 270
Loans and advances to customers	12 549	216	596	8	80	13 449
Investments	859	635	-	14	-	1 508
Other financial assets	140	65	22	19	5	251
Other assets	260	17	-	-	-	277
Premises and equipment	351	15	-	-	-	366
Deferred tax asset	-	37	-	-	-	37
Total assets	**16 823**	**3 180**	**1 048**	**472**	**123**	**21 646**
Liabilities						
Due to other banks	713	271	105	8	11	1 108
Customer accounts	10 904	2 501	48	26	207	13 686
Debt securities issued	573	992	-	-	-	1 565
Syndicated and other debt	224	71	-	-	-	295
Subordinated debt	1 309	438	-	-	-	1 747
Other financial liabilities	137	176	6	1	2	322
Other liabilities	112	11	-	-	-	123
Deferred tax liability	102	-	-	-	-	102
Total liabilities	**14 074**	**4 460**	**159**	**35**	**220**	**18 948**
Net balance sheet position as at 31 December 2009	**2 749**	**(1 280)**	**889**	**437**	**(97)**	**2 698**

31 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as at 31 December 2008 is disclosed in table below:

In millions of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	3 128	347	14	370	1	3 860
Mandatory cash balances with central banks	26	49	4	-	-	79
Trading securities	213	198	161	-	16	588
Repurchase receivables relating to trading securities	136	15	-	-	-	151
Due from other banks	296	1 405	47	89	-	1 837
Loans and advances to customers	16 582	556	817	13	2	17 970
Investments	289	29	45	9	-	372
Repurchase receivables relating to investments	215	-	-	-	-	215
Other financial assets	195	724	228	4	44	1 195
Other assets	359	12	-	-	-	371
Premises and equipment	364	19	7	-	-	390
Deferred tax asset	-	24		-	-	24
Total assets	**21 803**	**3 378**	**1 323**	**485**	**63**	**27 052**
Liabilities						
Due to other banks	6 361	811	186	15	34	7 407
Customer accounts	8 406	3 714	205	66	191	12 582
Debt securities issued	396	1 979	6	-	10	2 391
Syndicated and other debt	272	739	-	53	-	1 064
Subordinated debt	-	464	-	-	-	464
Other financial liabilities	271	516	32	13	1	833
Other liabilities	92	18	-	-	-	110
Deferred tax liability	39	-	-	-	-	39
Total liabilities	**15 837**	**8 241**	**429**	**147**	**236**	**24 890**
Net balance sheet position as at 31 December 2008	**5 966**	**(4 863)**	**894**	**338**	**(173)**	**2 162**

CIS represents the countries of the Commonwealth of Independent States, of which the Group's primary exposure is to the Ukraine and Kazakhstan.

The majority of credit related commitments were issued in favour of Russian counterparties and their offshore companies both as at 31 December 2009 and 2008.

Assets and liabilities have generally been allocated based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and premises, equipment and intangible assets have been allocated based on the country in which they are physically held.

The majority of the Group's revenues are generated from counterparties domiciled in the Russian Federation as well as substantially all of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

31 Financial Risk Management (Continued)

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

The Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratios against regulatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

As at 31 December 2009 the Group had unused limits for the borrowings from CBRF (i) under a secured lending programme, secured by a pledge of loans and advances to customers, (ii) under a cross-guarantee lending programme, (iii) under sale and repurchase agreements.

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

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

The Treasury Department runs liquidity forecast models on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast. ALCO approved the increase of the limit for available for sale securities portfolio and liquidity cushion. The crisis liquidity scenario was revised to account for the higher probabilities of delays in payments on corporate and retail loans.

The table below shows liabilities as at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position because the amounts in the consolidated statement of financial position are based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amounts are determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities as at 31 December 2009 was as follows:

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	796	144	64	122	1 126
Customer accounts - individuals	3 423	1 117	629	1 975	7 144
Customer accounts - other	3 892	2 183	708	53	6 836
Debt securities issued	84	475	213	978	1 750
Syndicated and other debt	72	6	40	222	340
Subordinated debt	-	48	265	2 783	3 096
Other non-derivative financial liabilities	89	51	-	8	148
Gross settled swaps and forwards:					
- inflows	(2 659)	(896)	(33)	(381)	(3 969)
- outflows	2 698	911	27	387	4 023
Net settled derivatives	33	52	17	32	134
Import letters of credit	15	17	4	63	99
Cross-guarantees	-	-	905	-	905
Guarantees issued	120	196	157	317	790
Total potential future payments for financial obligations	**8 563**	**4 304**	**2 996**	**6 559**	**22 422**

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The maturity analysis of undiscounted financial liabilities as at 31 December 2008 was as follows:

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to other banks	2 858	4 240	165	357	7 620
Customer accounts - individuals	4 648	829	546	262	6 285
Customer accounts - other	3 087	1 384	1 334	1 038	6 843
Debt securities issued	106	546	703	1 363	2 718
Syndicated and other debt	463	10	315	372	1 160
Subordinated debt	-	20	20	530	570
Other non-derivative financial liabilities	165	62	-	27	254
Gross settled swaps and forwards:					
- inflows	(528)	(626)	(30)	-	(1 184)
- outflows	554	661	32	1	1 248
Net settled derivatives	70	178	154	66	468
Import letters of credit	28	41	276	148	493
Cross-guarantees	0	1 848	0	0	1 848
Guarantees issued	70	187	196	244	697
Total potential future payments for financial obligations	**11 521**	**9 380**	**3 711**	**4 408**	**29 020**

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Treasury Department monitors expected maturities.

31 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2009 by their expected maturities as determined by the Group. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within “demand and less than 1 month” based on the Management’s assessment of the portfolio’s realisability. Part of current/settlement/demand accounts was reallocated from “demand and less than 1 month” category to baskets with later maturities. On the basis of past experience Management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

In millions of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	1 966	-	-	-	-	1 966
Mandatory cash balances with central banks	150	-	-	-	-	150
Trading securities	1 372	-	-	-	-	1 372
Due from other banks	1 784	62	24	400	-	2 270
Loans and advances to customers	2 377	2 079	1 576	7 417	-	13 449
Investments	19	110	9	871	499	1 508
Other financial assets	149	94	2	6	-	251
Other assets	-	111	-	4	162	277
Premises and equipment	-	-	-	-	366	366
Deferred tax asset	-	-	-	-	37	37
Total assets	**7 817**	**2 456**	**1 611**	**8 698**	**1 064**	**21 646**
Liabilities						
Due to other banks	792	143	62	111	-	1 108
Customer accounts	3 195	3 589	1 517	5 385	-	13 686
Debt securities issued	84	468	203	810	-	1 565
Syndicated and other debt	71	6	38	180	-	295
Subordinated debt	-	47	246	1 454	-	1 747
Other financial liabilities	165	126	5	26	-	322
Other liabilities	7	65	-	51	-	123
Deferred tax liability	-	-	-	-	102	102
Total liabilities	**4 314**	**4 444**	**2 071**	**8 017**	**102**	**18 948**
Net expected liquidity gap as at 31 December 2009	**3 503**	**(1 988)**	**(460)**	**681**	**962**	**2 698**
Cumulative expected liquidity gap as at 31 December 2009	**3 503**	**1 515**	**1 055**	**1 736**	**2 698**	

As at 31 December 2009 the Group had unutilised limits for borrowings from CBRF (i) under a secured lending programme, secured by a pledge of loans and advances to customers; (ii) under a cross-guarantee lending programme; (iii) under sale and repurchase agreements and (iv) through CBRF liquidity auctions.

31 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2008 by their expected maturities as determined by the Group.

In millions of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	3 860	-	-	-	-	3 860
Mandatory cash balances with central banks	79	-	-	-	-	79
Trading securities	588	-	-	-	-	588
Repurchase receivables relating to trading securities	13	138	-	-	-	151
Due from other banks	1 706	41	6	84	-	1 837
Loans and advances to customers	2 289	5 239	2 556	7 886	-	17 970
Investments	-	92	35	190	55	372
Repurchase receivables relating to investments	24	191	-	-	-	215
Other financial assets	389	512	195	99	-	1 195
Other assets	-	193	-	-	178	371
Premises and equipment	-	-	-	-	390	390
Deferred tax asset	-	-	-	-	24	24
Total assets	**8 948**	**6 406**	**2 792**	**8 259**	**647**	**27 052**
Liabilities						
Due to other banks	2 845	4 088	158	316	-	7 407
Customer accounts	3 658	2 497	1 963	4 464	-	12 582
Debt securities issued	106	533	669	1 083	-	2 391
Syndicated and other debt	462	2	300	300	-	1 064
Subordinated debt	-	19	19	426	-	464
Other financial liabilities	274	284	163	112	-	833
Other liabilities	11	71	-	28	-	110
Deferred tax liability	-		-	-	39	39
Total liabilities	**7 356**	**7 494**	**3 272**	**6 729**	**39**	**24 890**
Net expected liquidity gap as at 31 December 2008	**1 592**	**(1 088)**	**(480)**	**1 530**	**608**	**2 162**
Cumulative expected liquidity gap as at 31 December 2008	**1 592**	**504**	**24**	**1 554**	**2 162**	

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

32 Management of Capital

The Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks and debt covenants, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel I (International Convergence of Capital Management and Capital Standards dated July 1988 (as subsequently amended and updated)) of at least 8%. Capital adequacy ratio is monitored daily for compliance with the requirements set by the CBRF and monthly for other objectives of capital management.

The Group's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of investors, creditors, other market participants and to secure the future development of the Group. The CBRF establishes and monitors capital adequacy limits for Alfa-Bank and OJSC Bank Severnaya Kazna. Capital adequacy limits for Amsterdam Trade Bank N.V. are established and monitored by the Dutch Central Bank. Capital adequacy limits of Alfa Capital Holdings (Cyprus) Limited are monitored by the Cyprus Securities and Exchange Commission.

The Group plans its capital needs to be able to comply with both the central banks' requirements and Basel I with a one year horizon. The Group performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Group develops and implements measures to increase its capital base.

To ensure compliance with the capital adequacy ratios in the short run, the Group monitors use of capital by business segments. Responsibility for approval procedures and monitoring of the capital use is with the Financial Planning and Analysis Department of the Group.

The Group and Alfa-Bank are also subject to covenants stated in various loan agreements, including capital adequacy calculated in accordance with Basel I. The composition of the Group's capital which is managed by the Group's management and calculated in accordance with Basel I was as follows:

In millions of US Dollars	**2009**	**2008**
Tier 1 capital		
Paid up share capital	1 265	945
Retained earnings, cumulative translation reserve and non-controlling interest	1 346	1 209
Less: Goodwill	(64)	(75)
Total tier 1 capital	**2 547**	**2 079**
Tier 2 capital		
Asset revaluation reserves	87	8
Subordinated debt	1 274	244
Total tier 2 capital	**1 361**	**252**
Total capital	**3 908**	**2 331**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements as at 31 December 2009 and 2008.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been recorded in these consolidated financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

The Group conducts some transactions which might be considered to be transactions at off-market rates. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia which contribute a significant proportion of the Group's operating results. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition to the aforementioned risks, the Group estimates that as at 31 December 2009 it had other possible obligations from exposure to other than remote tax risks of up to approximately USD 4 million (2008: USD 4 million).

Refer to Note 4 for details of results of the tax audit completed during 2008.

33 Contingencies and Commitments (Continued)

Investment commitments. As at 31 December 2009, the Group had commitments for future investments in Pamplona Capital Partners I L.P. in the amount of USD 26 million. Refer to Note 11.

Capital commitments. As at 31 December 2009 the Group had capital commitments of USD 13 million (2008: USD 68 million), of which USD 7 million (2008: USD 19 million) related to construction expenditure and modernisation of premises and USD 6 million (2008: USD 49 million) related to purchase and installation of new computer systems. Management has already allocated the necessary resources in respect of these commitments. Management believes that future income and funding will be sufficient to cover these and any similar commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

In millions of US Dollars	**2009**	**2008**
Not later than 1 year	54	72
Later than 1 year and not later than 5 years	71	108
Later than 5 years	8	8
Total operating lease commitments	**133**	**188**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Outstanding credit related commitments were as follows:

In millions of US Dollars	**Note**	**2009**	**2008**
Cross guarantees	15	905	1 848
Guarantees issued		790	697
Import letters of credit		99	493
Export letters of credit	16	60	216
Total credit related commitments		**1 854**	**3 254**

Cross guarantees represent guarantees provided by Alfa-Bank to the CBRF in favour of other Russian banks under a special CBRF lending programme. OAO Alfa-Bank also received such guarantees for a part of its borrowings from the CBRF. As at 31 December 2009 the Group did not have loans from CBRF secured by the cross guarantees. Refer to Note 15.

The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was USD 13 million as at 31 December 2009 (2008: USD 46 million).

33 Contingencies and Commitments (Continued)

Movements in the provision for losses on credit related commitments were as follows:

In millions of US Dollars	Note	2009	2008
Provision for losses on credit related commitments as at 1 January		**46**	**21**
Provision for losses on credit related commitments during the year		(32)	20
Provision for losses on credit related commitments acquired in business combinations		-	10
Effect of translation to presentation currency		(1)	(5)
Provision for losses on credit related commitments as at 31 December	**20**	**13**	**46**

Compliance with covenants. In accordance with agreements for attracting long-term financing the Group should comply with financial and non-financial covenants. The most significant covenants are:

- to comply with the ratios and requirements of the CBRF (for Alfa-Bank);
- to maintain a ratio of capital to risk-weighted assets as defined by Basel I;
- to maintain a minimum level of net assets;
- to maintain a minimum ratio of aggregated financial indebtedness;
- to maintain certain levels of credit ratings;
- to ensure that all related party transactions are on an arm's length basis; and
- to maintain a maximum level of long-term debt securities issued.

The Group was in compliance with these covenants as at 31 December 2009 and 2008.

Assets pledged and restricted. The Group had the following assets pledged as collateral:

In millions of US Dollars	Notes	2009	2008
Loans and advances to customers pledged to the SDIA	10, 18	497	396
Loans and advances to customers pledged to the CBRF	10, 15	268	837
Margin call deposits	9	247	324
Term deposits with other banks placed under the Diversified Payment Rights Secured Debt Issuance Programme	9, 17	77	84
Investments available for sale classified as repurchase receivables	11, 15	-	215
Trading securities classified as repurchase receivables	8, 15	-	151
Total		**1 089**	**2 007**

As at 31 December 2009 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Notes 9 and 10), which the Group has the right to sell or re-pledge in the absence of default of the counterparty was USD 91 million (2008: USD 167 million). As at 31 December 2009 the fair value of such securities sold under sale and repurchase agreements with other banks amounted to USD 3 million (2008: USD 43 million).

Mandatory cash balances with central banks in the amount of USD 150 million (2008: USD 79 million) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

34 Derivative Financial Instruments

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The principal or agreed amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate contractual or principal amount of derivative financial instruments held and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward, swap contracts are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to respective reporting period.

	2009			2008		
In millions of US Dollars	**Principal or agreed amount**	**Assets Positive fair value**	**Liabilities Negative fair value**	**Principal or agreed amount**	**Assets Positive fair value**	**Liabilities Negative fair value**
Deliverable forwards						
Securities						
-sale of securities	512	14	(24)	330	102	(13)
-purchase of securities	22	1	-	-	-	(1)
Non-deliverable forwards						
Securities						
-sale of securities	59	5	(2)	-	-	-
Futures						
Interest rate						
-sale of interest rate futures	-	-	-	15	-	-
Call options						
Securities						
-written call options	-	-	-	1	-	-
Foreign currency						
-written call options	81	-	(6)	162	-	(18)
-purchased call options	81	6	-	162	18	-
Swaps						
Interest rate swaps - pay fixed interest, receive floating interest	2 098	-	(64)	2 496	152	(59)
Credit default swap	-	-	-	10	-	(2)
Total		**26**	**(96)**		**272**	**(93)**

34 Derivative Financial Instruments (Continued)

The table below sets out fair values, as at the end of the reporting period, of currencies receivable or payable under foreign exchange contracts and precious metals based contracts (excluding options) entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective reporting dates.

	2009		2008	
In millions of US Dollars	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Deliverable forwards				
- USD receivable on settlement	1 031	350	81	58
- USD payable on settlement	(751)	(2 604)	(989)	(1 191)
- EUR receivable on settlement	404	2 335	1 037	828
- EUR payable on settlement	(910)	(124)	(1)	(58)
- RR receivable on settlement	245	137	11	173
- RR payable on settlement	(2)	(24)	(45)	-
- Other currencies receivable on settlement	121	100	-	141
- Other currencies payable on settlement	(127)	(209)	(10)	-
Non-deliverable forwards				
- USD receivable on settlement	2 052	906	5 043	947
- USD payable on settlement	(702)	(1 129)	(1 858)	(5 352)
- EUR receivable on settlement	138	935	920	3 697
- EUR payable on settlement	(1 390)	(12)	(2 713)	(1 180)
- RR receivable on settlement	425	197	1 261	1 210
- RR payable on settlement	(626)	(899)	(1 709)	(89)
- Other currencies receivable on settlement	186	89	86	442
- Other currencies payable on settlement	(61)	(126)	(400)	(66)
Deliverable swaps				
- USD payable on settlement	(63)	-	(95)	-
- EUR receivable on settlement	67	-	100	-
Net fair value of foreign exchange derivatives and derivatives on precious metals	**37**	**(78)**	**719**	**(440)**

As at 31 December 2009 derivative financial instruments included currency forwards with a contractual amount of USD 1 055 million (2008: USD 1 231 million) which were designated and qualified as hedges of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. The total amount of the effective portion of the foreign currency exchange gains recorded during 2009 on these hedging instruments amounted to USD 61 million (2008: gains of USD 249 million). No ineffectiveness was recorded in the profit or loss for the year in respect of the hedge. As at 31 December 2009 the negative fair value of these hedging instruments amounted to USD 3 million (2008: the positive fair value USD 229 million). No amounts were reclassified from other comprehensive income during the year, as there were no disposals of subsidiaries, which the hedges related to.

Forward positions in securities as at 31 December 2009 are summarised below. As at 31 December 2009 and 2008 the majority of respective securities' long balance sheet positions reduced risks related to securities' short forward positions. Refer to Note 8.

	2009		2008	
	Principal or agreed amount		Principal or agreed amount	
In millions of US Dollars	Sale	Purchase	Sale	Purchase
Corporate Eurobonds	346	1	172	-
Corporate bonds	177	-	151	-
Corporate shares	14	-	-	-
Eurobonds of other states	10	-	6	-
Municipal bonds	1	-	1	-
ADRs and GDRs	23	21	-	-
Total	**571**	**22**	**330**	**-**

The information on transactions with related parties is disclosed in Note 36.

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 9 and 10 for the estimate fair value of due from other banks and loans and advances to customers.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair value of balances with no stated maturity is the amount repayable on demand. Refer to Notes 15 and 16 for the estimated fair values of due to other banks and customer accounts respectively. Discount rates used were consistent with the credit risk of the individual entities depending on currency and maturity of the instrument.

Syndicated and other debt. The estimated fair value of syndicated and other debt is based on discounted cash flows using interest rates for new debts with similar remaining maturity ranging from 2.3% p.a. to 6.7% p.a. (2008: from 3.3% p.a. to 12.0% p.a.).

Debt securities issued. The fair value of traded debt has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments.

Subordinated debt. The fair value of traded subordinated debt has been determined by reference to published asking quotations. Refer to Note 4 for the information about the subordinated loans from VEB.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. The fair value of derivative financial instruments is disclosed in Note 34.

35 Fair Value of Financial Instruments (Continued)

Discount rates used in determination of fair values depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2009	2008
Due from other banks		
- Term placements	0.0 - 40.7	0.0 – 40.0
- Reverse sale and repurchase agreements	3.0 - 9.3	15.0 – 18.0
Loans and advances to customers		
- Corporate loans, finance lease receivables and advances on lease operations	8.0 – 21.0	6.0 - 39.3
- Loans to small and medium size enterprises	5.2 – 20.0	14.5 - 23.5
- Loans to individuals	12.7 – 34.2	10.4 - 32.7
Due to other banks		
-Correspondent accounts and overnight placements of other banks	0.0 - 13.3	0.0 - 11.9
-Term placements of other banks	0.0 - 16.3	0.0 - 22.0
-Sale and repurchase agreements with other banks	1.4 - 28.0	5.5 – 10.0
Customer accounts		
-Current/settlement accounts of corporates	0.0 - 13.0	0.0 - 13.5
-Term deposits of corporates	0.1 - 16.0	0.5 - 16.0
-Current/settlement accounts of individuals	0.0 - 7.2	0.0 - 7.3
-Term deposits of individuals	0.0 - 16.2	0.0 - 15.6
Syndicated and other debt		
- Syndicated loans	2.3	3.3 - 5.1
- Loan from SDIA	6.7	12.0
Debt securities issued (excluding quoted instruments)		
- Promissory notes and domestic bonds issued	0.0 - 16.8	0.0 - 12.0
- Notes issued under a DPR Programme	2.2 - 3.0	4.1 - 5.8
- Euro-Commercial Papers	-	8.2 - 9.0

35 Fair Value of Financial Instruments (Continued)

For financial instruments carried at fair value, the levels in the fair value hierarchy, which the fair values are attributed to, were as follows:

	2009			2008		
In millions of US Dollars	Quoted prices in active markets (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant unobservable inputs (Level 3)	Quoted prices in active markets (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant unobservable inputs (Level 3)
Financial assets						
Trading securities	**1 315**	**34**	**23**	**484**	**-**	**104**
- Corporate Eurobonds	497	34	23	242	-	104
- Corporate bonds	383	-	-	91	-	-
- Eurobonds of other states	347	-	-	96	-	-
- Municipal Eurobonds	40	-	-	-	-	-
- Municipal bonds	1	-	-	6	-	-
- Russian Federation Eurobonds	-	-	-	2	-	-
- Bonds of other states	-	-	-	30	-	-
- Corporate shares	30	-	-	11	-	-
- ADRs and GDRs	17	-	-	6	-	-
Repurchase receivables	**-**	**-**	**-**	**151**	**-**	**-**
- Corporate bonds	-	-	-	113	-	-
- Corporate Eurobonds	-	-	-	22	-	-
- Russian Federation Eurobonds	-	-	-	15	-	-
- Municipal bonds	-	-	-	1	-	-
Debt investment securities available for sale	**977**	**-**	**32**	**289**	**-**	**28**
- Russian Federation bonds and Eurobonds	643	-	-	150	-	-
- Corporate Eurobonds	334	-	32	110	-	28
- Corporate bonds	-	-	-	29	-	-
Repurchase receivables	**-**	**-**	**-**	**215**	**-**	**-**
- Russian Federation bonds and Eurobonds	-	-	-	215	-	-
Equity investments available for sale	**-**	**-**	**414**	**-**	**-**	**-**
Equity investments at fair value through profit and loss	**-**	**13**	**72**	**-**	**11**	**44**
Other financial assets	**9**	**54**	**42**	**102**	**889**	**-**
Foreign exchange forward contracts	-	33	-	-	714	-
Other financial derivatives	9	21	-	102	175	-
Receivables at fair value through profit or loss	-	-	42	-	-	-
Total financial assets carried at fair value	**2 301**	**101**	**583**	**1 241**	**900**	**176**

35 Fair Value of Financial Instruments (Continued)

Methods and assumptions for valuation of financial assets included in Level 2 and Level 3 of the fair valuation hierarchy

Level 2. The fair value of financial derivatives allocated to Level 2 was determined based on the discounted cash flows (DCF) models with all significant inputs observable in the market and based on adjusted market quotes for those securities with very insignificant trading volumes.

Level 3. Equity investments available for sale in the amount of USD 414 million and equity investments at fair value through profit or loss in the amount of USD 13 million allocated to Level 3 represent investments in unit funds and have been valued using the net assets values reported to the Group by the respective fund managers. These net assets values in respect of all securities held by those unit funds have been in all cases determined either on the basis of market quotes for the securities held by the unit funds where available, or on the basis of indicative quotes provided by reputable brokerage houses dealing in such unquoted securities.

The fair value of equity investments at fair value through profit or loss in the amount of USD 59 million was determined by an independent professional appraiser using DCF and peer based models.

The fair value of trading securities and debt securities available for sale allocated to Level 3 was for each security determined based on indicative quotes provided by reputable brokerage houses dealing in these securities. Although the Group has own valuation models for these securities, the lack of trading and reliable information about them makes those models highly subjective and Management uses such external quotes, where available, to value these positions.

Main assumptions used in the DCF models were future revenues, capital expenditures and operating costs of the investees, their weighted average cost of capital and forecasts of relevant main macroeconomic indicators.

	2009		2008	
In millions of US Dollars	**Quoted prices in active markets (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Quoted prices in active markets (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**
Financial liabilities				
Other financial liabilities	**26**	**148**	**88**	**518**
- Foreign exchange forward contracts	-	75	-	438
- Other derivative financial instruments	26	73	15	80
- Short sales of securities	-	-	73	-
Total financial liabilities carried at fair value	**26**	**148**	**88**	**518**

Level 3 sensitivity for investments valued using models. Had other reasonably possible alternative assumptions have been used for the valuation, the fair value as at 31 December 2009 of the equity investments at fair value through profit and loss with the carrying value of USD 59 million valued using DCF and peer based models would have been in the range from USD 45 million to USD 71 million.

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

35 Fair Value of Financial Instruments (Continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2009 is as follows:

In millions of US Dollars	Trading securities	Debt investments available for sale	Equity investments available for sale	Investments at fair value through profit or loss	Other financial assets
Fair value at 1 January 2009	**104**	**28**	**-**	**44**	**-**
Gains or losses recognised in profit or loss for the year	89	(3)	-	21	-
Gains or losses recognised in other comprehensive income	-	-	13	-	-
Acquisition	89	-	401	10	42
Disposals	(125)	(4)	-	(4)	-
Redemption at nominal value	(139)	(10)	-	-	-
Coupon accrued	3	4	-	-	-
Coupon received	(3)	(4)	-	-	-
Transfers into level 3	5	21	-	1	-
Fair value at 31 December 2009	**23**	**32**	**414**	**72**	**42**
Revaluation gains less losses recognised in profit or loss for the period for assets held at 31 December 2009	**(28)**	**(8)**	**-**	**21**	**-**
Revaluation gains less losses recognised in other comprehensive income for the period for assets held at 31 December 2009	**-**	**-**	**13**	**-**	**-**

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

ABHH (Note 1) and CTF Holdings Limited and their subsidiaries constitute the Alfa Group. Banking transactions are entered into in the normal course of business with significant shareholders, directors, associated companies and companies with which the Group has significant shareholders in common, including other companies in Alfa Group and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Related party transactions are reflected in the tables below.

There were no material transactions of the Group with ABHH except disposal of JSC SB Alfa-Bank Kazakhstan (Note 1) and equity contributions from ABHH in 2009 and 2008 (Note 22).

The most significant (by volume of transactions) related parties of the Group are Alfa Group, ABH Ukraine Group (a Ukrainian banking subsidiary of ABHH), TNK-BP Limited (an oil and gas company 25% owned by Alfa Group) and Alfa DA Limited.

36 Related Party Transactions (Continued)

Alfa DA Limited (''ADA'') and its subsidiaries ("ADA Group") is a sub-holding of Alfa Group established in 2009 and owned by ABHH. ADA's main objective is accumulating and managing non-core assets obtained by the Group and sold to ADA in the course of restructuring of impaired loans to customers. The sale price for these non-core assets is determined by negotiations between the Group and ADA and reflects the fair value of these assets. The purchase of these assets is partially financed by the Group through loans to ADA. ADA is managed by A1 Group, a subsidiary of Alfa Group. ADA's underlying assets form the main source of repayment of liabilities to the Group.

In 2009 the Group purchased from a subsidiary of Alfa Group investments in Pamplona Capital Partners I L.P. and Pamplona Credit Opportunities Fund (Note 11). These funds are managed by Pamplona Capital Management LLP, an independent investment manager. A member of the Board of Directors of Alfa-Bank is the Chief Executive Officer of Pamplona Capital Management LLP. The Group in both cases is an investor in the funds but has no participation in the management of the funds.

The outstanding balances as at the end of year and income and expense items as well as other transactions for the year with related parties were as follows:

	2009				
In millions of US Dollars	**TNK-BP**	**Alfa Group and its shareholders (except for ABH Ukraine Group and ADA Group)**	**Key management**	**ADA Group**	**ABH Ukraine Group**
Trading securities as at the year end	**49**	**21**	**-**	**-**	**34**
Investment securities available for sale as at the year end	**11**	**21**	**-**	**-**	**-**
Correspondent accounts with other banks as at the year end	**-**	**-**	**-**	**-**	**34**
Term placements with other banks as at the year end	**-**	**3**	**-**	**-**	**291**
USD, effective contractual rate of 11.9%-40.7%	-	-	-	-	239
EUR, effective contractual rate of 9.5%-11.5%	-	3	-	-	52
Loans and advances to customers as at the year end (gross of provision for impairment)	**5**	**536**	**-**	**229**	**95**
RR, effective contractual rate of 3.6% - 25.5%	5	51	-	24	-
USD, effective contractual rate of 1.6% - 15%	-	485	-	205	26
Swiss franc, effective contractual rate of 10%	-	-	-	-	69
Provision for loan impairment as at 1 January	**-**	**-**	**-**	**-**	**-**
Provision for loan impairment during the year	-	-	-	(104)	-
Provision for loan impairment as at 31 December	**-**	**-**	**-**	**(104)**	**-**
Receivables as at the year end	**-**	**15**	**-**	**42**	**7**
Correspondent accounts of other banks as at the year end	**-**	**4**	**-**	**-**	**7**

36 Related Party Transactions (Continued)

In millions of US Dollars	2009				
	TNK-BP	**Alfa Group and its shareholders (except for ABH Ukraine Group and ADA Group)**	**Key management**	**ADA Group**	**ABH Ukraine Group**
Customer accounts					
Current/settlement accounts as at the year end	**28**	**269**	**-**	**7**	**9**
RR, effective contractual rate of 0.0% - 5.0%	26	67	-	6	-
USD, effective contractual rate of 0.0% - 1.4%	2	75	-	1	7
EUR, effective contractual rate of 0.0% - 1.4%	-	127	-	-	2
Term deposits as at the year end	**221**	**1 219**	**3**	**9**	**-**
RR, effective contractual rate of 3.0% - 16.0%	69	274	-	9	-
USD, effective contractual rate of 3.6% - 12.0%	152	875	3	-	-
EUR, effective contractual rate of 6.3% - 10.3%	-	70	-	-	-
GBP, effective contractual rate of 5.0%	-	-	-	-	-
Payables as at the year end	**-**	**7**	**32**	**-**	**-**
Interest income for the year	**6**	**102**	**-**	**11**	**48**
Interest expense for the year	**(10)**	**(31)**	**-**	**-**	**-**
Fee and commission income for the year	**1**	**27**	**-**	**-**	**-**
Fee and commission expense for the year	**-**	**(1)**	**-**	**-**	**-**
Gains less losses arising from trading securities for the year	**-**	**(6)**	**-**	**-**	**(36)**
Gains less losses arising from trading in foreign currencies for the year	**3**	**2**	**-**	**-**	**16**
Other income for the year	**-**	**1**	**-**	**-**	**-**
Other expenses for the year	**-**	**(15)**	**(35)**	**-**	**-**
Guarantees issued by the Group as at the year end	**57**	**8**	**-**	**-**	**-**
Guarantees received by the Group as at the year end	**-**	**-**	**-**	**419**	**-**
Import letters of credit as at the year end	**-**	**-**	**-**	**-**	**9**

36 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2008 and income and expense items as well as other transactions for the year ended 31 December 2008 with related parties were as follows:

	2008				
In millions of US Dollars	**TNK-BP**	**Alfa Group and its sharehol-ders (except for ABH Ukraine Group)**	**Key manage-ment**	**Associates**	**ABH Ukraine Group**
Trading securities as at the year end	**17**	**18**	**-**	**-**	**121**
Investment securities available for sale as at the year end	**7**	**3**	**-**	**-**	**45**
Term placements with other banks as at the year end	**-**	**4**	**-**	**-**	**39**
RR, effective contractual rate of 10%-18%	-	4	-	-	-
USD, effective contractual rate of 9%-15.03%	-	-	-	-	39
Loans and advances to customers as at the year end (gross of provision for impairment)	**-**	**658**	**-**	**105**	**5**
RR, effective contractual rate of 11.5% - 23%	-	218	-	-	-
USD, effective contractual rate of 10.5% - 20%	-	440	-	32	5
EUR, effective contractual rate of 9.75% - 23%	-	-	-	73	-
Provision for loan impairment as at 1 January	**-**	**-**	**-**	**(11)**	**-**
Provision for loan impairment during the year	-	-	-	(94)	-
Provision for loan impairment as at 31 December	**-**	**-**	**-**	**(105)**	**-**
Receivables as at the year end	**-**	**35**	**-**	**-**	**204**
Correspondent accounts of other banks as at the year end	**-**	**-**	**-**	**-**	**89**
Customer accounts					
Current/settlement accounts as at the year end	**84**	**191**	**3**	**-**	**3**
RR, effective contractual rate of 0.0% - 11.0%	58	76	1	-	-
USD, effective contractual rate of 0.0% - 2.1%	26	103	2	-	3
EUR, effective contractual rate of 0.0% - 4.1%	-	12	-	-	-
Term deposits as at the year end	**8**	**1 164**	**-**	**-**	**3**
RR, effective contractual rate of 3.0% - 16.0%	8	131	-	-	-
USD, effective contractual rate of 3.6% - 12.0%	-	1 020	-	-	3
EUR, effective contractual rate of 6.3% - 10.3%	-	8	-	-	-
GBP, effective contractual rate of 5.0%	-	5	-	-	-
Payables as at the year end	**-**	**6**	**9**	**-**	**20**
Interest income for the year	**1**	**101**	**-**	**4**	**12**
Interest expense for the year	**5**	**51**	**-**	**-**	**-**
Fee and commission income for the year	**1**	**35**	**-**	**-**	**-**
Fee and commission expense for the year	**-**	**2**	**-**	**-**	**-**

36 Related Party Transactions (Continued)

	2008				
In millions of US Dollars	TNK-BP	Alfa Group and its sharehol-ders (except for ABH Ukraine Group)	Key manage-ment	Associates	ABH Ukraine Group
Gains less losses arising from trading securities for the year	**-**	**9**	**-**	**-**	**25**
Gains less losses arising from trading in foreign currencies for the year	**-**	**(3)**	**-**	**-**	**163**
Other expenses for the year	**-**	**(17)**	**(13)**	**-**	**-**
Guarantees issued by the Group at the year end	**77**	**10**	**-**	**-**	**-**
Import letters of credit as at the year end	**-**	**14**	**-**	**-**	**-**

Key management of the Group represents members of the Board of Directors and Executive Board of the Group and Alfa-Bank. Key management compensation is presented below:

In millions of US Dollars	2009	2008
Key management compensation accrued as at the reporting date	**32**	**9**
Salaries	-	-
Bonuses	**32**	**9**
- short-term bonuses	15	3
- long-term bonuses	17	6

In millions of US Dollars	2009	2008
Key management compensation expense for the year	**35**	**13**
Salaries	6	9
Bonuses	**29**	**4**
- short-term bonuses	15	3
- long-term bonuses	14	1

Short-term bonuses represent bonuses payable immediately or shortly after they are accrued, while long-term bonuses represent bonuses payable more than 12 months after the end of the year in which the employee rendered service.

37 Business Combinations

On 28 November 2008 the Group acquired for cash 85.02% of the share capital of OJSC Bank Severnaya Kazna. In relation to the acquisition the Group received a loan from the State Deposit Insurance Agency (Note 18). The acquired subsidiary did not contribute any significant revenue or profit to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, revenue for 2008 would have been higher by USD 231 million and profit for 2008 would have been lower by USD 118 million (excluding impact of amortisation of fair value adjustments).

The consideration paid by the Group was based on a valuation of the acquiree's business taken as a whole. In accordance with IFRS 3 "Business Combinations", the Group initially accounted for the acquisition based on provisionally estimated fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. The purchase price allocation was finalised during 2009 and is reflected in the below information on the assets and liabilities acquired and goodwill arising:

In thousands of US Dollars	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Cash and cash equivalents	82	82
Loans and advances to customers	836	831
Customer relationship	-	85
Premises and equipment	171	171
Other assets	152	155
Due to banks	(175)	(175)
Customer accounts	(869)	(893)
Other liabilities	(135)	(135)
Deferred tax liability	(2)	(13)
Fair value of net assets of subsidiary		**108**
Less: Minority interest		(15)
Fair value of acquired interest in net assets of subsidiary		**93**
Goodwill arising from the acquisition (Note 13)		93
Total purchase consideration		**186**
Less: Cash and cash equivalents of subsidiary acquired		(82)
Outflow of cash and cash equivalents on acquisition		**104**

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined cost savings that are expected to arise. The fair value of assets and liabilities acquired is based on discounted cash flow models and comparable sales information.

38 Subsequent Events

In March 2010, the Group issued USD-denominated Notes with a total nominal value of USD 600 million bearing a coupon of 8% p.a. and maturity in 2015.

ABH Financial Limited

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2008

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INDEPENDENT AUDITOR'S REPORT

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

1 We have audited the accompanying consolidated financial statements of ABH Financial Limited and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

20 April 2009
Moscow, Russian Federation

In thousands of US Dollars	Note	31 December 2008	31 December 2007
ASSETS			
Cash and cash equivalents	7	3 860 019	2 634 359
Mandatory cash balances with central banks		79 313	308 092
Trading securities	8	588 281	841 457
Repurchase receivables relating to trading securities	8	150 821	534 426
Due from other banks	9	1 837 436	1 916 685
Loans and advances to customers	10	17 969 661	15 330 090
Investments	11	371 676	114 201
Repurchase receivables relating to investments	11	215 070	-
Other financial assets	12	1 194 887	498 003
Other assets	13	371 144	180 417
Premises and equipment	14	389 595	274 526
Deferred tax asset	29	24 483	62 304
TOTAL ASSETS		**27 052 386**	**22 694 560**
LIABILITIES			
Due to other banks	15	7 407 065	2 849 461
Customer accounts	16	12 583 066	12 180 392
Debt securities issued	17	2 390 550	3 178 936
Syndicated and other loans	18	1 063 848	1 354 090
Subordinated debt	19	463 715	526 006
Other financial liabilities	20	832 940	565 594
Other liabilities	21	110 622	128 545
Deferred tax liability	29	39 135	56 839
TOTAL LIABILITIES		**24 890 941**	**20 839 863**
EQUITY			
Share capital	22	944 800	694 800
Fair value reserve for investments available for sale		(44 911)	39
Revaluation reserve for premises		53 201	56 785
Cumulative translation reserve		(359 131)	(217 890)
Retained earnings		1 553 678	1 320 963
Net assets attributable to the Company's equity holders		**2 147 637**	**1 854 697**
Minority interest	**37**	**13 808**	**-**
TOTAL EQUITY		**2 161 445**	**1 854 697**
TOTAL LIABILITIES AND EQUITY		**27 052 386**	**22 694 560**

These consolidated financial statements were approved for issue by the Board of Directors of ABH Financial Limited on 20 April 2009 and any further changes require approval of this body.

The notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

In thousands of US Dollars	**Note**	**2008**	**2007**
Interest income	23	2 824 291	1 706 243
Interest expense	23	(1 405 733)	(790 211)
Expenses directly attributable to lending operations	23	(36 665)	(17 015)
Net margin from lending operations		**1 381 893**	**899 017**
Provision for loan impairment	9, 10	(956 128)	(222 875)
Net margin after provision for loan impairment		**425 765**	**676 142**
Fee and commission income	24	420 693	318 973
Fee and commission expense	24	(79 754)	(60 606)
Gains less losses arising from trading securities	25	73 523	43 303
Gains less losses arising from foreign currencies and precious metals	25	280 678	18 957
(Losses less gains)/gains less losses arising from investments	11	(22 829)	34 630
Share of results and impairment of associates	11	(49 414)	(30 304)
Gains arising from acquisition of own debts	26	138 837	2 737
Other impairment provisions	12,13,33	(52 602)	(8 370)
Other operating income	27	79 041	15 437
Operating expenses	28	(813 249)	(681 965)
Profit before tax		**400 689**	**328 934**
Income tax expense	29	(170 559)	(75 448)
Profit for the year		**230 130**	**253 486**
Profit attributable to:			
Equity holders of the Company		230 164	253 486
Minority interest		(34)	-
Profit for the year		**230 130**	**253 486**

The notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

In thousands of US Dollars	Attributable to the equity holders of the Company						Minority interest	Total equity
	Share capital (Note 22)	Fair value reserve for invest-ments available for sale	Revalua-tion reserve for pre-mises	Cumula-tive transla-tion reserve	Retained earnings	Total		
Balance as at 31 December 2006	**344 800**	**70**	**25 929**	**(216 461)**	**1 155 837**	**1 310 175**	**9**	**1 310 184**
Revaluation of premises, net of taxation (Note 14)	-	-	33 108	-	-	33 108	-	33 108
Investment securities available for sale (Note 11)								
- revaluation to fair value	-	39	-	-	-	39	-	39
- disposals	-	(70)	-	-	-	(70)	-	(70)
Translation movement	-	-	-	90 867	-	90 867	-	90 867
Net change in hedge of net investment in foreign operations (Note 34)	-	-	-	(74 607)	-	(74 607)	-	(74 607)
Share of other equity movements of associates (Note 11)	-	-	-	(17 689)	-	(17 689)	-	(17 689)
Net income/(loss) recorded directly in equity	**-**	**(31)**	**33 108**	**(1 429)**	**-**	**31 648**	**-**	**31 648**
Profit for the year	-	-	-	-	253 486	253 486	-	253 486
Total recognised income/(loss) for the year	**-**	**(31)**	**33 108**	**(1 429)**	**253 486**	**285 134**	**-**	**285 134**
Share capital contribution (Note 22)	350 000	-	-	-	-	350 000	-	350 000
Dividends declared (Note 22)	-	-	-	-	(92 393)	(92 393)	-	(92 393)
Other movements	-	-	(2 252)	-	4 033	1 781	(9)	1 772
Balance as at 31 December 2007	**694 800**	**39**	**56 785**	**(217 890)**	**1 320 963**	**1 854 697**	**-**	**1 854 697**
Revaluation of premises, net of taxation (Note 14)	-	-	(4 022)	-	-	(4 022)	-	(4 022)
Tax rate change (Note 29)	-	-	2 989	-	-	2 989	-	2 989
Investment securities available for sale (Note 11)								
- revaluation to fair value	-	(60 975)	-	-	-	(60 975)	-	(60 975)
- disposals	-	5 204	-	-	-	5 204	-	5 204
- income tax	-	10 821	-	-	-	10 821	-	10 821
Translation movement	-	-	-	(388 783)	-	(388 783)	(989)	(389 772)
Net change in hedge of net investment in foreign operations (Note 34)	-	-	-	248 948	-	248 948	-	248 948
Share of other equity movements of associates (Note 11)	-	-	-	(1 406)	-	(1 406)	-	(1 406)
Net loss recorded directly in equity	**-**	**(44 950)**	**(1 033)**	**(141 241)**	**-**	**(187 224)**	**(989)**	**(188 213)**
Profit for the year	-	-	-	-	230 164	230 164	(34)	230 130
Total recognised income/(loss) for the year	**-**	**(44 950)**	**(1 033)**	**(141 241)**	**230 164**	**42 940**	**(1 023)**	**41 917**
Share capital contribution (Note 22)	250 000	-	-	-	-	250 000	-	250 000
Business combinations (Note 37)	-	-	-	-	-	-	14 831	14 831
Realised revaluation reserve	-	-	(2 551)	-	2 551	-	-	-
Balance as at 31 December 2008	**944 800**	**(44 911)**	**53 201**	**(359 131)**	**1 553 678**	**2 147 637**	**13 808**	**2 161 445**

The notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

In thousands of US Dollars	Note	2008	2007
Cash flows from operating activities			
Interest received		2 836 574	1 677 579
Interest paid, other than on debt securities issued, syndicated and other loans and subordinated debt		(1 070 755)	(485 728)
Expense directly attributable to the lending operations		(36 468)	(16 910)
Fees and commissions received		419 566	316 113
Fees and commissions paid		(80 964)	(59 342)
Net income received from trading securities		(174 560)	36 930
Net income received from trading in foreign currencies		(506 908)	63 346
Other operating income received		45 119	10 912
Staff costs paid		(452 747)	(374 779)
Other operating expenses paid		(329 094)	(281 649)
Income tax paid		(117 063)	(146 507)
Cash flows from operating activities before changes in operating assets and liabilities		**532 700**	**739 965**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with central banks		193 477	(30 975)
Net decrease/(increase) in trading securities and repurchase receivables		141 012	(369 767)
Net increase in due from other banks		(96 114)	(186 599)
Net increase in loans and advances to customers		(4 307 009)	(5 234 509)
Net decrease/(increase) in other assets and other financial assets		44 556	(225 210)
Net increase in due to other banks		5 306 162	1 314 268
Net increase in customer accounts		1 076 065	3 676 325
Net (decrease)/increase in other liabilities and other financial liabilities		(106 313)	31 183
Net cash from/(used in) operating activities		**2 784 536**	**(285 319)**
Cash flows from investing activities			
Acquisition of investments available for sale	11	(421 099)	(8 902)
Proceeds from disposal of investments available for sale	11	12 893	374
Acquisition of investments at fair value through profit and loss		(6 335)	(5 409)
Proceeds from disposal of investments at fair value through profit and loss		14 166	16 134
Proceeds from disposal of investment property		53 435	-
Acquisition of premises, equipment and intangible assets	14	(68 405)	(90 372)
Proceeds from disposal of premises, equipment and intangible assets	14	10 219	15 353
Proceeds from disposal of subsidiaries		-	19 792
Acquisition of subsidiaries	37	(103 399)	-
Cash outflow on disposal of subsidiaries		-	(1 557)
Dividend income received	27	2 358	4 005
Net cash used in investing activities		**(506 167)**	**(50 582)**
Cash flows from financing activities			
Share capital contribution	22	250 000	350 000
Proceeds from syndicated and other loans	18	577 888	1 200 846
Repayment of syndicated and other loans	18	(885 125)	(832 063)
Interest paid on syndicated and other loans	23	(61 219)	(59 313)
Proceeds from debt securities issued	17	815 311	1 323 715
Repayment of debt securities issued	17	(1 356 305)	(864 272)
Interest paid on debt securities in issue	23	(233 965)	(158 645)
Proceeds from subordinated debt	19	-	298 525
Interest paid on subordinated debt	19	(46 029)	(32 359)
Net cash (used in)/from financing activities		**(939 444)**	**1 226 434**
Net increase in cash and cash equivalents		**1 338 925**	**890 533**
Cash and cash equivalents at the beginning of the year	7	2 634 359	1 672 681
Effect of exchange rate changes on cash and cash equivalents		(113 265)	71 145
Cash and cash equivalents at the end of the year	**7**	**3 860 019**	**2 634 359**

Refer to Note 11 for details of payment of dividends in kind.

The notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

1 Introduction

ABH Financial Limited (the "Company"), a limited liability company registered in the British Virgin Islands, and its subsidiaries (the "Group") comprise four main business segments: corporate banking, retail banking, treasury and investment banking (refer to Note 30). The corporate banking, retail banking and treasury activities of the Group are carried out principally by Open Joint Stock Company Alfa-Bank ("Alfa-Bank") and its subsidiaries. The investment banking activities of the Group are carried out principally by Alfa Capital Holdings (Cyprus) Limited together with certain other subsidiaries. A substantial part of the Group's activities are carried out in the Russian Federation.

The Company is wholly owned by ABH Holdings Corp. ("ABHH"), a British Virgin Islands registered company, owned by six individuals. Mr. Fridman, Mr. Khan and Mr. Kuzmichev (the "Controlling Shareholders") collectively control and own a 77.86% interest in ABHH. None of the Controlling Shareholders individually controls and/or owns a 50% or more interest in ABHH. The Controlling Shareholders have entered into an agreement to vote as if they were a single shareholder in relation to all matters relating to ABHH.

The Company is registered at P.O. Box 146, Trident Chambers, 1 Wickhams Cay, Road Town, Tortola, British Virgin Islands.

As at 31 December 2008 the Group had 364 offices (including branches, regional branches and outlets), most of which were operated by Alfa-Bank (2007: 303 offices).

Corporate banking, retail banking and treasury. Alfa-Bank is a wholly owned subsidiary of the Company. It is registered in the Russian Federation to carry out banking and foreign exchange activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the "CBRF") since 1991. Alfa-Bank operates in all banking sectors of the Russian financial markets, including interbank, corporate and retail loans and deposits, foreign exchange operations and debt and equity trading. In addition, a complete range of banking services is provided in Russian Roubles ("RR") and foreign currencies to its customers. Alfa-Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand (prior to 1 October 2008: 100% up to RR 100 thousand and 90% in excess of RR 100 thousand up to a limit of RR 400 thousand) per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments. Alfa-Bank is licensed by the Federal Commission on Securities Market for trading in securities. Alfa-Bank's major wholly owned subsidiaries comprise Amsterdam Trade Bank N.V. (Netherlands), JSC SB Alfa-Bank Kazakhstan (Kazakhstan) and OJSC Bank Severnaya Kazna (Russian Federation).

Alfa-Bank's registered office is located at 27 Kalanchyovskaya Street, Moscow 107078, Russian Federation. Alfa-Bank's principal place of business is 9 Mashi Poryvaevoy Street, Moscow 107078, Russian Federation.

Investment banking. The Company is the parent company of Alfa Capital Holdings (Cyprus) Limited and certain other subsidiaries which are primarily involved in the investment banking business including proprietary trading and brokerage activities, investment and merchant banking and asset management. Alfa Capital Holdings (Cyprus) Limited is regulated by the Cyprus Securities and Exchange Commission and licensed principally for brokerage activities and proprietary trading (own trading in shares and debentures). The license entitles Alfa Capital Holdings (Cyprus) Limited to operate both locally (with certain restrictions) and outside Cyprus.

Alfa Capital Holdings (Cyprus) Limited is registered at Elenion Building, 5 Themistocles Dervis Street, 2nd floor, CY-1066 Nicosia, PO Box 25549, CY-1310 Nicosia, Cyprus.

2 Operating Environment of the Group

The Group, through its operations, has a significant exposure to the economy and financial markets of the Russian Federation.

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies. The official United States Dollar ("US Dollar" or "USD") exchange rate of the CBRF increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and RR 33.41 at 30 March 2009. Due to increased market volatility, one-day MosPrime rate fluctuated between 6.83% p.a. and 25.17% p.a. during the period from 31 December 2008 to 30 March 2009. International reserves of the Russian Federation decreased from USD 557 billion at 30 September 2008 to USD 427 billion at 31 December 2008 to USD 384 billion at 30 March 2009. The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price per barrel of Urals oil decreased from USD 91.15 at 29 September 2008 to USD 41.83 at 31 December 2008 and USD 48.96 at 30 March 2009.

A number of measures have been undertaken to support the Russian financial markets, including the following:

- In October 2008 the CBRF reduced the mandatory reserves ratio to 0.5% and raised the guarantee repayment of individual deposits under the State deposit insurance coverage to RR 700 thousand per individual in case of the withdrawal of a license of a bank or an imposed moratorium on payments by the CBRF.

- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.

- The CBRF made significant placements to the leading Russian banks collateralised by guarantees issued by third party banks. Refer to Note 15 and 33.

- The CBRF provided additional liquidity through regular unsecured finance auctions.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Group.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch"), has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in local and international stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. Since September 2008 several medium size Russian banks have been acquired by state-controlled banks and companies due to their liquidity problems. The full extent of the impact of the ongoing crisis is currently not possible to predict.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings or deposits and re-finance its existing borrowings or deposits at terms and conditions similar to those applied to earlier transactions.

2 Operating Environment of the Group (Continued)

Counterparties of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Russia for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

As a result of the recent volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for certain securities and, as such, in the opinion of management certain securities are no longer being quoted on an active market. Hence fair value as at 31 December 2008 of certain securities has been determined using a valuation technique. The objective of the valuation technique is to establish what the transaction price would have been on the reporting date in an arm's length exchange motivated by normal business considerations. Determining fair value requires consideration of current market conditions, including the relative liquidity of the market and current credit spreads.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, investment property, available-for-sale financial assets, financial instruments categorised as at fair value through profit or loss and all derivative contracts. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Note 5).

Alfa-Bank maintains its accounting records in accordance with Russian banking regulations. Other subsidiaries maintain their accounting records in accordance with accounting regulations or applicable companies' law in their respective jurisdictions. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

Presentation currency. These consolidated financial statements are presented in thousands of US Dollars. The US Dollar has been selected as the presentation currency of the Group as US Dollar is the currency which Management of the Group uses to manage business risks and exposures, and measure the performance of its businesses. US Dollar amounts should not be construed as a representation that Russian Rouble amounts have been or could have been converted to US Dollars at the rates specified further in this Note; non-monetary items are translated at historic rates.

3 Summary of Significant Accounting Policies (Continued)

Functional currencies. Different entities within the Group may have different functional currencies, based on the underlying economic conditions of their operations. In particular, OJSC Alfa-Bank and OJSC Bank Severnaya Kazna have Russian Roubles as their functional currency, as their activities are mostly based in the Russian Federation and are dependent on the condition of the Russian economy. ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited have US Dollars as their functional currency, as their operations are managed in US Dollars and reliant on the economic conditions in the rest of the world as well as in the Russian Federation. Management evaluates the appropriateness of the respective functional currencies for the entities of the Group from time to time, so that the functional currency of any entity of the Group may change, once the economic conditions it is reliant on so dictate. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under “Foreign Currency Translation” section of this note.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in Note 4.

Consolidated financial statements. Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired (measured at the date of exchange) is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the consolidated statement of income.

Intercompany transactions, balances and unrealised gains on the transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group’s equity.

Associated companies. Associated companies are entities over which the Group has significant influence, but not control, usually represented by between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting. Under this method, the Group’s share of the post-acquisition profits or losses of associated companies is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. The carrying amount of investments in associated companies includes goodwill identified on acquisition less accumulated impairment losses, if any. Impairment losses, when identified, are recorded in the consolidated statement of income in share of results of associates. When the Group’s share of losses in an associated company equals or exceeds its interest in the associated company, including any unsecured receivables, the Group does not record further losses unless the Group has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group’s interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3 Summary of Significant Accounting Policies (Continued)

Foreign currency translation. The functional currency of the Company is US Dollars. The Group determines the appropriate functional currency for each subsidiary. Refer also to Note 4.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end exchange rates are recognised in the consolidated statement of income. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The results and financial position of each Group entity (none of which is in a hyperinflationary economy) are translated into the Company's functional currency as follows:

(i) assets and liabilities for each balance sheet are translated at the closing rate on balance sheet date;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all exchange differences resulting from this translation and exchange differences arising from currency instruments designated as hedge of net investment in foreign operations (to the extent that the hedge is effective) are recorded in equity.

The income and expenses for each Group entity's income statement for the nine months ended 30 September 2008 are translated at the average rate for this period, each consecutive month's income and expenses (October-December 2008) are translated at average rates for the corresponding month due to the increased volatility in the exchange rates in the last months of 2008.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to the consolidated statement of income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

As at 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 29.3804 (2007: USD 1 = RR 24.5462), the average exchange rate for the nine months ended 30 September 2008 was USD 1 = RR 24.0452, for October 2008 USD 1 = RR 26.3559, for November 2008 USD 1 = RR 27.3112, for December 2008 USD 1 = RR 28.1359 (2007: USD 1 = RR 25.5770).

Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost, as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The most recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

3 Summary of Significant Accounting Policies (Continued)

Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in the consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in a significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating the interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy within this note).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments (except for loans representing government assistance) at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory cash balances with central banks. Mandatory balances with central banks represent mandatory reserve deposits with the Central Bank of the Russian Federation and other local central banks, which are not available to finance the Group’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within three months.

3 Summary of Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities, calculated using the effective interest method, is presented in the consolidated statement of income as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of income as gains less losses from trading securities in the period in which they arise.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks, with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets are impaired. Impairment losses are recognised in the consolidated statement of income when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. This assessment is carried out individually on financial assets that are considered individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets for collective assessment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- delinquency in contractual payments of principal and interest except delay caused by the settlement systems;
- breach of loan covenants or conditions;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that Management obtains;
- initiation of bankruptcy proceedings or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- there are significant changes in the borrower's management structure which can cause late payment or no payment;
- third party actions: legal and/or tax claims against the borrower (pledger, underwriter), arrest or seizure of the borrower's (pledger's, underwriter's) property including property pledged with the Group;
- any encumbrance of the borrower's property (pledge, rent, trust management, etc.) without the Group's written approval;
- total loss of pledged property;
- disablement or death of the borrower (pledger, underwriter) or business owner (more than 50% share capital);
- change of the borrower's (pledger's, underwriter's) or business owner's (more than 50% share capital) place of residence and/or place of work without written notice sent to the Group;
- there is trustworthy information that the borrower (pledger, underwriter) or business owner (more than 50% share capital) is missing or went abroad for more than 1 year;
- the borrower (pledger, underwriter) or business owner (more than 50% share capital) is imprisoned or arrested;
- termination or change of the borrower's commercial activity without written notice sent to the Group.

3 Summary of Significant Accounting Policies (Continued)

The estimated period between a loss occurring and its identification is determined by Management for each identified portfolio. In general, the periods used vary between one month and 12 months.

For the purposes of a collective impairment assessment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through the consolidated statement of income.

Uncollectible assets including accrued interest are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Necessary procedures to recover the asset include: (i) sending a notification on the repayment of debt to the borrower and the surety, (ii) negotiations with the borrower's management and owners, (iii) analysing liquidity of the borrower's assets, which can be foreclosed to settle the debt, (iv) review condition of the pledged property, (v) submitting legal claims through the courts, and (vi) sale of foreclosed property. Loans to individuals are written off after 180 days of non-payment.

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Credit related commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

Investments available for sale. This classification includes investments which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investments available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available for sale equity instruments are recognised in the consolidated statement of income when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to the consolidated statement of income.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are recognised in the consolidated statement of income when incurred as a result of one or more events that occurred after the initial recognition. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the consolidated statement of income - is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity instruments are not reversed through the consolidated statement of income - subsequent increases in fair value are credited to equity. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through current period's consolidated statement of income.

Investments designated at fair value through profit or loss at inception. Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Board of Directors.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. Securities sold under sale and repurchase agreements are not derecognised. The corresponding liability is presented within amounts due to other banks or customer accounts depending on counterparty. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell are recorded as due from other banks or loans and advances to customers as appropriate.

Securities lent to counterparties are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Investment property. Property that is held for capital appreciation, and that is not occupied by the Group, is classified as investment property. Investment property comprises land held under operating leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. Investment property is measured at its fair value, including related transaction costs. Fair value is based on active market prices, adjusted, if necessary for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as income approach, etc. These valuations are reviewed annually. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Changes in fair values are recorded in the consolidated statement of income.

3 Summary of Significant Accounting Policies (Continued)

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Premises and equipment. Equipment is stated at cost less accumulated depreciation and provision for impairment, where required.

Premises of the Group are subject to revaluation on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised (i.e. as the asset is used by the Group). The amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition of the acquired subsidiary, being their cost to the Group.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the consolidated statement of income. An impairment loss recorded for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by comparing their carrying amount with the sale proceeds and are recognised in the consolidated statement of income.

Customer relationship. Customer relationship includes relationships with the corporate and individual customers which kept current accounts with the bank at the time of the business combination. Customer relationship is amortised on a diminishing balance basis reflecting the pattern in which the asset's future economic benefits are expected to be consumed.

Computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Internal development costs that are directly associated with identifiable and unique software products controlled by the Group which will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of ten years.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises	2% per annum;
Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Leasehold improvements	over the term of the underlying lease.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the gross investment in the lease. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated statement of income.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities issued. Debt securities issued include promissory notes, bonds, commercial paper and term notes. Promissory notes issued by the Group have a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the purchaser can discount in the over-the-counter secondary market. Debt securities are stated at amortised cost.

If the Group purchases its own debt securities issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of income as gains less losses arising from acquisition of own debts.

Syndicated loans. Syndicated loans are loans in which a group of financial institutions provides funds to the Group. Syndicated loans are carried at amortised cost.

Subordinated debt. Subordinated debt ranks behind all other creditors in case of liquidation. Subordinated debt is carried at amortised cost.

Acquired own subordinated notes are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recorded in the consolidated statement of income as gains less losses arising from acquisition of own debts.

Government assistance in form of loans. Loans from the State or State agencies representing government assistance are initially recorded in the amount of cash received and subsequently carried at amortised cost.

Dividends. Dividends are recorded in equity in the period in which they are approved by the shareholders of the Company. Dividends that are declared after the balance sheet date are disclosed as subsequent events.

3 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments and hedge accounting. Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps and other derivative financial instruments are carried at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in the consolidated statement of income in gains less losses arising from foreign currencies and precious metals and gains less losses arising from trading securities, depending on the related contracts, unless the derivatives qualify as hedging instruments.

The Group designates certain derivatives as hedge of a part of the net investment in a foreign operation (net investment hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between the hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the exposures to the hedged risks.

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedges of net investment in foreign operations are recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of income.

Amounts accumulated in equity are recycled in the consolidated statement of income in the periods when the hedged item is disposed of.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation currently in force in the respective territories in which the Group operates. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of income except if it is recognised directly in equity when it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted at the balance sheet date which are expected to apply when the temporary difference reverses are used to determine deferred income tax balances. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recorded only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

3 Summary of Significant Accounting Policies (Continued)

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Revenues from the assignment of film rights for a fixed fee under non-cancellable contracts where the Group has no remaining obligations to perform are recognised at the time of sale and are included in other operating income.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Expenses directly attributable to lending operations. Expenses directly attributable to lending operations comprise of property tax and insurance costs relating to the leased assets which are directly attributable to finance leasing operations as well as contributions paid to the State Deposit Insurance Agency. These expenses are not incremental transaction costs that would have to be recognized as part of the effective interest rate.

Property tax and insurance costs relating to the leased assets are not subject to deduction from or offsetting with the minimum lease payments receivable because they are not reimbursable to the lessor. The lease contract has an option for the lessor to change lease payments if property tax, insurance, and borrowing costs change, but there is no obligation to do so, and the lessor has a primary responsibility for the payment of insurance and property tax.

Contributions paid to the State Deposit Insurance Agency are not linked to particular customer deposits or deposit products.

Fiduciary assets. The Group commonly acts as trustee and in other fiduciary capacities that result in the holding of assets on behalf of individuals and institutions. These assets and liabilities arising thereon are excluded from the consolidated financial statements, as they are not assets and liabilities of the Group. For the purposes of disclosure fiduciary activities do not encompass safe custody function. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting financial instruments. Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount which are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in accordance with the existing employee compensation plans. Discretionary employee compensations are subject to Management's approval and are disclosed within staff costs.

3 Summary of Significant Accounting Policies (Continued)

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications is as follows:

In thousands of US Dollars	**As originally presented**	**Reclassification**	**As presented**
Consolidated Balance Sheet as at 31 December 2007			
Loans and advances to customers	15 037 535	292 555	15 330 090
Other financial assets	778 447	(280 444)	498 003
Premises and equipment	290 818	(16 292)	274 526
Other assets	176 236	4 181	180 417
Other borrowed funds	3 743 834	(3 743 834)	-
Promissory notes issued	789 192	(789 192)	-
Debt securities issued	-	3 178 936	3 178 936
Syndicated and other loans	-	1 354 090	1 354 090
Consolidated Statement of Income for the year ended 2007			
Expenses directly attributable to lending operations	-	(17 015)	(17 015)
Operating expenses	(698 980)	17 015	(681 965)
Gains arising from acquisition of own debts	-	2 737	2 737
Other operating income	18 174	(2 737)	15 437

Management carried out these reclassifications relating to the prior year figures reported in the consolidated financial statements in order to provide better information to the users of the financial statements.

Advances on leasing operations which generated interest income were reclassified from other assets and other financial assets to loans and advances to customers.

Other borrowed funds were split to the separate balance sheet lines according to their substance: debt securities issued and syndicated and other loans. Promissory notes were reclassified into debt securities issued.

Net book value of intangible assets has been reclassified to other assets in order to disclose them together with other intangible assets.

Property tax and insurance costs related to the leased assets which are directly attributable to finance leasing operations as well as contributions paid to the State Deposit Insurance Agency previously recorded within operating expenses were reclassified to expenses directly attributable to lending operations.

Gains arising from acquisition of own debts previously recorded within other operating income are presented separately on the face of the consolidated statement of income.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of USD 119 021 thousand (2007: USD 38 069 thousand), respectively.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require the Management to make estimates. Changes in assumptions about these factors could affect reported fair values.

Due to instability in money and foreign exchange markets as at the end of 2008, different OTC market makers provided a wide spread of yield curves for selected currencies. Changing applied yield curves by +/- 10% would result in increase or decrease of gains less losses from operations with foreign currencies by USD 22 332 thousand and USD 21 611 thousand respectively.

Income taxes. There are many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain (Note 33). The Group records liabilities for completed and anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the current and deferred taxation in the period in which such determination is made.

Management applies its judgement in interpretation of existing tax legislation for the purposes of assessment of current and deferred taxation. Also, Management uses judgement to assess the realisability of deferred tax assets, which is subject to availability of profits and other circumstances, including the ability to claim full deduction of the expenses incurred in relation to the underlying assets and liabilities. Management reassesses current and deferred tax balances at each reporting date and adjusts them accordingly.

During 2008 the Russian tax authorities performed a tax audit of Alfa-Bank's operations for 2005-2006 and challenged the Group's interpretation and application of the tax legislation relating to deductibility for tax purposes of certain provisions for loan impairment. As a result, the Group paid additional taxes for 2005-2006 and related fines in the amount of USD 38 032 thousand. Also, during 2008 the Group reassessed its estimates relating to deductibility of similar provisions for loan impairment in the periods subsequent to 2006 and (i) increased its current tax liabilities related to 2007 by USD 24 881 thousand and (ii) released deferred tax assets in the amount of USD 64 879 thousand which were recorded in prior periods.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Management believes that the previous assessment of deductibility for tax purposes of the above provisions for loan impairment was based on the best information then available including existing industry practices and results of previous tax audits.

This change in estimate was recorded through the consolidated statement of income for 2008. See Note 29.

Functional currencies of different entities of the Group. Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination of what the specific underlying economic conditions are requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities. Specifically, in determination of the functional currencies of ABH Financial Limited and Alfa Capital Holdings (Cyprus) Limited, the Group based its judgement on the fact that the companies operate internationally on markets mainly influenced by the US Dollar (not Russian Rouble) and their major activities include provision of brokerage services to foreign investors. Moreover, the majority of their operations are denominated in US Dollars and also, the US Dollar is the currency in which their business risks and exposures are managed and the performance of their business is measured.

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- **IFRIC 11, IFRS 2 – Group and Treasury Share Transactions** (effective for annual periods beginning on or after 1 March 2007);
- **IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008);
- **IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant impact on the Group's consolidated financial statements.

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures,* and a subsequent amendment, *Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made.

In accordance with the Order approved by the Chief Financial Officer dated 27 October 2008 the Group reclassified the following financial assets from the held for trading category to the available for sale category (Note 11):

In thousands of US Dollars	**Carrying value**	**Cash flows expected to be recovered**	**Effective interest rate, %**
Russian Federation Eurobonds	24 656	46 017	7.5
Corporate bonds	61 142	78 934	11.1
Corporate Eurobonds	224 713	279 636	8.3
Total	**310 511**	**404 587**	

5 Adoption of New or Revised Standards and Interpretations (Continued)

The reclassification was made effective from 1 July 2008 when, in Management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

Interest income, foreign exchange gains less losses and impairment losses recognised in the consolidated income statement for the year ended 31 December 2008 for the reclassified assets amounted to a net loss of USD 2 586 thousand. Had the assets not been reclassified, fair value gains less losses recognised in the consolidated income statement would have been lower by USD 49 352 thousand.

As at 31 December 2008 the fair value of the reclassified assets amounted to USD 186 398 thousand.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Group's consolidated financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

6 New Accounting Pronouncements (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amendment to affect its consolidated financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to affect its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. Management is currently assessing what impact the standard will have on the Group's consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group does not expect the amendment to affect its consolidated financial statements.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group does not expect the amendment to affect its consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. Management is currently assessing what impact the standard will have on the Group's consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. Management is currently assessing what impact the standard will have on the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. Management is currently assessing the impact of the new interpretation on the Group's consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its consolidated financial statements.

7 Cash and Cash Equivalents

In thousands of US Dollars	**2008**	**2007**
Cash on hand	790 545	626 094
Cash balances with central banks (other than mandatory cash balances)	2 287 459	1 359 638
Correspondent and settlement accounts with banks and financial institutions		
- Russian Federation	345 572	126 543
- Europe and USA	328 070	112 282
- Other countries	1 223	15 755
Overnight placements with banks		
- Russian Federation	-	6 112
- Other countries	107 150	387 935
Total cash and cash equivalents	**3 860 019**	**2 634 359**

The analysis by credit quality of overnight placements is based on their stratification by set limits. Higher limits are assigned to counterparties whose credit quality is better. Analysis by credit quality of overnight placements was as follows:

In thousands of US Dollars	**2008**	**2007**
Neither past due nor impaired		
- limit from USD 100 to 200 million	100 550	116 718
- limit below USD 100 million	6 600	277 329
Total overnight placements	**107 150**	**394 047**

The credit quality of the balances on correspondent and settlement accounts with banks and financial institutions is managed through a system of qualitative risk management procedures comprising credit risk assessment before acceptance. Furthermore, after establishing a correspondent account, depending on the magnitude of the balance, Management carries out regular monitoring of the financial position and performance of the counterparties.

As at 31 December 2008 the ten largest aggregate balances on correspondent and settlement accounts and overnight placements with banks and financial institutions amounted to USD 768 139 thousand (2007: USD 508 131 thousand) or 98.2% (2007: 78.3%) of the correspondent and settlement accounts and overnight placements.

For the purposes of measurement the Group classified all balances included in cash and cash equivalents as loans and receivables. Currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

8 Trading Securities and Repurchase Receivables

In thousands of US Dollars	**2008**	**2007**
Trading securities		
Corporate Eurobonds	346 245	191 125
Eurobonds of other states	95 697	43 930
Corporate bonds	90 963	419 342
Bonds of other states	29 975	4 738
Municipal bonds	5 700	3 661
Russian Federation Eurobonds	2 064	-
Total debt trading securities	**570 644**	**662 796**
Corporate shares	10 871	152 569
ADRs and GDRs	6 766	26 092
Total trading securities	**588 281**	**841 457**
Repurchase receivables		
Corporate bonds	113 216	228 536
Corporate Eurobonds	22 024	172 812
Russian Federation Eurobonds	14 935	83 567
Municipal bonds	646	1 444
Eurobonds of other states	-	15 960
Repurchase receivables relating to debt securities	**150 821**	**502 319**
Corporate shares	-	30 776
ADRs and GDRs	-	1 331
Total repurchase receivables	**150 821**	**534 426**
Total trading securities and repurchase receivables	**739 102**	**1 375 883**

Corporate Eurobonds are interest-bearing securities denominated in US Dollars, Russian Roubles and Euros, issued mainly by large Russian and CIS companies and freely tradable internationally. As at 31 December 2008 these bonds have maturity dates ranging from February 2009 to July 2035 (2007: from January 2008 to July 2035), coupon rates from 1.6% to 13.5% p.a. (2007: from 6.3% to 12.0% p.a.) and yields to maturity from 5.8% to 68.6% p.a. (2007: from 4.7% to 12.7% p.a.), depending on the type of bond issue.

Eurobonds of other states are interest-bearing securities denominated in Euros, issued mainly by European and CIS states, and freely tradable internationally. As at 31 December 2008 these bonds have maturity dates ranging from January 2009 to November 2017 (2007: January 2009 to August 2040), coupon rates from 2.8% to 6.8% p.a. (2007: from 2.8% to 11.0% p.a.) and yields to maturity from 1.8% to 31.6% p.a. (2007: from 4.0% to 8.1% p.a.), depending on the type of bond issue.

Corporate bonds are interest-bearing securities issued by large Russian companies, denominated in Russian Roubles and freely tradable in the Russian Federation. As at 31 December 2008 these bonds have maturity dates ranging from January 2009 to February 2017 (2007: February 2008 to June 2014), coupon rates from 6.7% to 16.5% p.a. (2007: from 7.6% to 16.0% p.a.) and yields to maturity from 5.8% to 84.4% p.a. (2007: from 7.5% to 26.0% p.a.), depending on the type of bond issue.

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Note 15). The counterparty financial institutions have a right to resell or pledge these securities.

8 Trading Securities and Repurchase Receivables (Continued)

Analysis by credit quality of debt trading securities and repurchase receivables was as follows at 31 December 2008:

In thousands of US Dollars	Corporate Eurobonds	Corporate bonds	Eurobonds of other states	Bonds of other states	Russian Federation Eurobonds	Municipal bonds	Total
Current and not impaired							
- limit above USD 50 million	18 237	47 408	-	-	16 999	-	82 644
- limit from USD 10 to 50 million	264 939	53 027	90 089	-	-	5 621	413 676
- limit below USD 10 million	8 781	5 692	5 608	-	-	-	20 081
- position hedged by derivatives	40 181	54 938	-	-	-	696	95 815
- other	36 131	43 114	-	29 975	-	29	109 249
Total debt trading securities and repurchase receivables	**368 269**	**204 179**	**95 697**	**29 975**	**16 999**	**6 346**	**721 465**

Analysis by credit quality of debt trading securities and repurchase receivables was as follows as at 31 December 2007:

In thousands of US Dollars	Corporate Eurobonds	Corporate bonds	Eurobonds of other states	Bonds of other states	Russian Federation Eurobonds	Municipal bonds	Total
Current and not impaired							
- limit above USD 50 million	65 177	-	-	-	83 567	-	148 744
- limit from USD 10 to 50 million	140 401	113 759	43 930	-	-	-	298 090
- limit below USD 10 million	88 696	25 372	4 887	-	-	-	118 955
- position hedged by derivatives	31 191	371 518	-	-	-	3 661	406 370
- other	38 472	137 229	11 073	4 738	-	1 444	192 956
Total debt trading securities and repurchase receivables	**363 937**	**647 878**	**59 890**	**4 738**	**83 567**	**5 105**	**1 165 115**

As at 31 December 2008 and as at 31 December 2007 the long balance sheet position of the Group in trading securities and repurchase receivables was partially hedged by an opposite position in derivative financial instruments for those securities. These hedges significantly reduce credit risk related to respective securities and therefore such securities not covered by individual limits are disclosed separately in the table above. Refer to Note 34.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As at 31 December 2008 no amounts of the debt securities were past due (2007: none). As all trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

As discussed in Note 5, during 2008 the Group reclassified a certain part of its trading securities to investment securities available for sale.

For the purposes of measurement the Group classified all balances included in trading securities and repurchase receivables as financial assets at fair value through profit or loss held for trading. Currency, maturity and interest rates analyses of trading securities and repurchase receivables are disclosed in Note 31. The information on securities issued by related parties and owned by the Group is disclosed in Note 36.

9 Due from Other Banks

In thousands of US Dollars	2008	2007
Term placements with other banks	1 731 785	1 774 200
Reverse sale and repurchase agreements with other banks	110 501	142 485
Less: Provision for impairment	(4 850)	-
Total due from other banks	**1 837 436**	**1 916 685**

As at 31 December 2008 reverse sale and repurchase agreements with other banks were effectively collateralised by securities purchased with estimated fair value of USD 128 127 thousand (2007: USD 159 048 thousand), all of which the Group had the right to sell or repledge.

As at 31 December 2008 the ten largest aggregate balances due from other banks amounted to USD 1 374 589 thousand (2007: USD 1 538 989 thousand) or 74.8% (2007: 80.3%) of total due from other banks.

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2008 was as follows:

In thousands of US Dollars	Term placements with other banks	Reverse sale and repurchase agreements with other banks	Total
Current and not impaired			
- limit above USD 200 million	51 866	118	51 984
- limit from USD 100 to 200 million	1 233 218	-	1 233 218
- limit below USD 100 million	396 986	45 944	442 930
- other	33 117	64 439	97 556
Current and individually determined to be impaired	16 598	-	16 598
Provision for impairment	**(4 850)**	**-**	**(4 850)**
Total due from other banks	**1 726 935**	**110 501**	**1 837 436**

Analysis by credit quality of amounts due from other banks outstanding as at 31 December 2007 was as follows:

In thousands of US Dollars	Term placements with other banks	Reverse sale and repurchase agreements with other banks	Total
Current and not impaired			
- limit above USD 200 million	355 100	-	355 100
- limit from USD 100 to 200 million	1 106 923	-	1 106 923
- limit below USD 100 million	229 854	53 596	283 450
- other	82 323	88 889	171 212
Total due from other banks	**1 774 200**	**142 485**	**1 916 685**

9 Due from Other Banks (Continued)

The above analysis by credit quality is based on their stratification by set limits. Higher limits are assigned to counterparties whose credit quality is better.

As at 31 December 2008 included within term placements with other banks are deposits placed under the Diversified Payment Rights Secured Debt Issuance Programme in the amount of USD 84 197 thousand (2007: USD 80 480 thousand). Refer to Note 17.

As at 31 December 2008 included within term placements with other banks are margin call deposits in the amount of USD 324 474 thousand (2007: USD 92 952 thousand) placed as collateral under transactions with derivatives.

As at 31 December 2008 and 2007 the fair value of each class of financial assets included in due from other banks approximated their carrying value. As at 31 December 2008 the estimated fair value of due from other banks was USD 1 837 436 thousand (2007: USD 1 916 685 thousand). Refer to Note 35.

For the purposes of measurement the Group classified all balances included in due from other banks as loans and receivables. Currency, maturity and interest rate analyses of due from other banks are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

10 Loans and Advances to Customers

In thousands of US Dollars	**2008**	**2007**
Corporate loans	14 797 554	12 495 826
Finance lease receivables	1 305 127	617 129
Loans to individuals - credit cards and personal instalment loans ("PILs")	961 585	676 554
Loans to individuals - car loans	704 928	531 088
Loans to individuals - mortgage loans	508 880	225 970
Loans to individuals - consumer loans	499 438	318 965
Loans to small and medium-size enterprises ("SMEs")	284 128	199 534
Advances on lease operations	67 350	292 555
Reverse repo - corporate customers and individuals	30 887	353 159
Total gross loans and advances to customers	**19 159 877**	**15 710 780**
Less: Provision for loan impairment	(1 190 216)	(380 690)
Total loans and advances to customers	**17 969 661**	**15 330 090**

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2008 were as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Loans to individuals				Total
					Credit cards and PILs	Car loans	Mortgage loans	Consumer loans	
Provision for loan impairment as at 1 January 2008	**268 743**	**8 466**	**12 824**	**-**	**36 639**	**21 406**	**631**	**31 981**	**380 690**
Provisions during the year	781 677	19 906	22 863	1 595	67 517	28 396	4 596	55 211	981 761
Amounts written off as uncollectible	(5 476)	-	-	-	(49 080)	(23 122)	(1 182)	(41 005)	(119 865)
Translation movement	(33 950)	(1 393)	(2 110)	-	(6 029)	(3 522)	(104)	(5 262)	(52 370)
Provision for loan impairment as at 31 December 2008	**1 010 994**	**26 979**	**33 577**	**1 595**	**49 047**	**23 158**	**3 941**	**40 925**	**1 190 216**

Movements in the provision for loan impairment during 2007 were as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Loans to individuals				Total
					Credit cards and PILs	Car loans	Mortgage loans	Consumer loans	
Provision for loan impairment as at 1 January 2007	**215 646**	**-**	**10 692**	**-**	**40 727**	**17 638**	**43**	**18 547**	**303 293**
Provisions during the year	46 066	8 258	6 435	-	81 614	33 926	569	62 870	239 738
Amounts written off as uncollectible	(11 885)	-	(5 395)	-	(89 564)	(31 967)	-	(51 571)	(190 382)
Disposal of subsidiary	(84)	-	-	-	-	-	-	-	(84)
Translation movement	19 000	208	1 092	-	3 862	1 809	19	2 135	28 125
Provision for loan impairment as at 31 December 2007	**268 743**	**8 466**	**12 824**	**-**	**36 639**	**21 406**	**631**	**31 981**	**380 690**

The provision for loan impairment during 2008 differs from the amount presented in the consolidated statement of income due to USD 30 483 thousand (2007: USD 16 863 thousand) recovery during 2008 of amounts previously written off as uncollectible. This amount was credited directly to the provisions line in the consolidated statement of income.

10 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the loans and advances to customers were as follows:

	2008		2007	
In thousands of US Dollars	**Amount**	**%**	**Amount**	**%**
Construction	3 238 113	17	2 179 498	14
Individuals	2 686 340	14	1 992 222	13
Trade and commerce	2 065 232	11	2 676 303	17
Railway transport	1 819 629	10	821 551	5
Machinery and metal working	1 113 652	6	663 245	4
Power generation	988 425	5	793 016	5
Ferrous metallurgy	896 890	5	831 225	5
Finance and investment companies	881 595	5	987 115	6
Non-ferrous metallurgy	858 019	4	632 188	4
Oil industry	814 803	4	195 662	1
Armament production	703 305	4	709 118	5
Food industry	476 794	2	260 094	2
Nuclear industry	455 417	2	567 906	4
Diamond extraction and processing	302 387	2	300 062	2
Aviation transport	301 957	2	236 194	2
Agriculture	250 777	1	153 502	1
Mass media and telecommunications	236 717	1	195 304	1
Coal Industry	213 165	1	146 271	1
Chemistry and petrochemistry	207 609	1	189 108	1
Natural gas industry	48 668	0	426 466	3
Timber industry	47 642	0	34 062	0
Water transport	43 689	0	76 044	0
Other	509 052	3	644 624	4
Total gross loans and advances to customers	**19 159 877**	**100**	**15 710 780**	**100**

As at 31 December 2008 aggregate loans and advances to the ten largest borrowers (or groups of related borrowers) amounted to USD 4 254 523 thousand (2007: USD 2 849 552 thousand) or 22.2% (2007: 18.1%) of the gross loans and advances to customers, while aggregate loans and advances to the 20 largest borrowers (or groups of related borrowers) amounted to USD 6 273 743 thousand (2007: USD 4 428 934 thousand) or 32.7% (2007: 28.2%) of the gross loans and advances to customers.

As at 31 December 2008 loans and advances to customers in the total amount of USD 837 201 thousand were pledged as collateral for the financing received from the CBRF (Note 15) and USD 395 929 thousand for the financing received from the State Deposit Insurance Agency (Note 18).

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2008 was as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Reverse repo	Total
Current and not impaired						
- Rating I	4 459 234	5 157	86 440	2 896	7 154	4 560 881
- Rating II	4 402 637	54 336	496 612	58 864	6 916	5 019 365
- Rating III	3 645 215	182 748	512 684	4 957	5 308	4 350 912
- Rating IV	344 387	2 940	92 897	-	-	440 224
Total gross current and not impaired	**12 851 473**	**245 181**	**1 188 633**	**66 717**	**19 378**	**14 371 382**
Past due but not impaired						
- less than 30 days overdue	186 680	1 529	48 626	-	-	236 835
- 30 to 90 days overdue	-	-	57 462	-	-	57 462
Total gross past due but not impaired	**186 680**	**1 529**	**106 088**	**-**	**-**	**294 297**
Individually determined to be impaired						
- current	947 844	18 525	10 406	633	-	977 408
- less than 30 days overdue	405 299	4 012	-	-	-	409 311
- 30 to 90 days overdue	245 999	8 387	-	-	-	254 386
- 90 to 180 days overdue	68 715	3 565	-	-	-	72 280
- 180 to 360 days overdue	89 793	2 929	-	-	-	92 722
- over 360 days overdue	1 751	-	-	-	-	1 751
Total gross individually impaired	**1 759 401**	**37 418**	**10 406**	**633**	**-**	**1 807 858**
Total gross loans and advances	**14 797 554**	**284 128**	**1 305 127**	**67 350**	**19 378**	**16 473 537**
Provision for loan impairment	**(1 010 994)**	**(26 979)**	**(33 577)**	**(1 595)**	**-**	**(1 073 145)**
Total loans and advances to corporate customers	**13 786 560**	**257 149**	**1 271 550**	**65 755**	**19 378**	**15 400 392**

Refer to Note 31 for definition of credit quality ratings. The Group created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Group's policy is to classify each loan as "current and not impaired" until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to corporate customers outstanding as at 31 December 2007 was as follows:

In thousands of US Dollars	Corporate loans	Loans to SMEs	Finance lease receivables	Advances on lease operations	Reverse repo	Total
Current and not impaired						
- Rating I	4 226 715	10 310	94 000	21 154	113 514	4 465 693
- Rating II	4 588 345	51 085	342 704	148 992	-	5 131 126
- Rating III	3 263 203	134 290	163 364	121 080	-	3 681 937
- Rating IV	311 462	122	-	1 329	-	312 913
Total gross current and not impaired	**12 389 725**	**195 807**	**600 068**	**292 555**	**113 514**	**13 591 669**
Past due but not impaired						
- less than 30 days overdue	-	-	17 061	-	-	17 061
Total gross past due but not impaired	**-**	**-**	**17 061**	**-**	**-**	**17 061**
Individually determined to be impaired						
- current	82 651	244	-	-	-	82 895
- less than 30 days overdue	-	-	-	-	-	-
- 30 to 90 days overdue	-	-	-	-	-	-
- 90 to 180 days overdue	5 232	3 076	-	-	-	8 308
- 180 to 360 days overdue	-	-	-	-	-	-
- over 360 days overdue	18 218	407	-	-	-	18 625
Total gross individually impaired	**106 101**	**3 727**	**-**	**-**	**-**	**109 828**
Total gross loans and advances	**12 495 826**	**199 534**	**617 129**	**292 555**	**113 514**	**13 718 558**
Provision for loan impairment	**(268 743)**	**(8 466)**	**(12 824)**	-	-	**(290 033)**
Total loans and advances to corporate customers	**12 227 083**	**191 068**	**604 305**	**292 555**	**113 514**	**13 428 525**

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2008 was as follows:

In thousands of US Dollars	**Credit cards and PILs**	**Car loans**	**Mortgage loans**	**Consumer loans**	**Reverse repo**	**Total**
Current and not impaired	887 197	666 144	492 589	456 844	11 509	2 514 283
Total gross current and not impaired	**887 197**	**666 144**	**492 589**	**456 844**	**11 509**	**2 514 283**
Past due but not impaired						
- less than 30 days overdue	34 379	21 313	9 947	21 277	-	86 916
Total gross past due but not impaired	**34 379**	**21 313**	**9 947**	**21 277**	**-**	**86 916**
Individually determined to be impaired						
- 30 to 90 days overdue	23 539	10 648	5 437	11 017	-	50 641
- 90 to 180 days overdue	16 470	6 823	907	10 300	-	34 500
Total gross individually impaired	**40 009**	**17 471**	**6 344**	**21 317**	**-**	**85 141**
Total gross loans and advances	**961 585**	**704 928**	**508 880**	**499 438**	**11 509**	**2 686 340**
Provision for loan impairment	**(49 047)**	**(23 158)**	**(3 941)**	**(40 925)**	**-**	**(117 071)**
Total loans and advances to individuals	**912 538**	**681 770**	**504 939**	**458 513**	**11 509**	**2 569 269**

Current and not impaired loans to individuals represent loans without signs of individual impairment and originated on the basis of underwriting procedures (Note 31).

The primary factors that the Group considers in determining whether a loan is impaired are ability of borrowers to service their debt, loans and interest overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired. The amount reported as past due is the whole balance of such loans not only the individual instalments that are past due.

10 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans to individuals outstanding as at 31 December 2007 was as follows:

In thousands of US Dollars	**Credit cards and PILs**	**Car loans**	**Mortgage loans**	**Consumer loans**	**Reverse repo**	**Total**
Current and not impaired	630 089	506 171	224 654	283 932	239 645	1 884 491
Total gross current and not impaired	**630 089**	**506 171**	**224 654**	**283 932**	**239 645**	**1 884 491**
Past due but not impaired						
- less than 30 days overdue	16 673	9 975	492	10 748	-	37 888
Total gross past due but not impaired	**16 673**	**9 975**	**492**	**10 748**	**-**	**37 888**
Individually determined to be impaired						
- 30 to 90 days overdue	13 766	8 166	824	11 656	-	34 412
- 90 to 180 days overdue	16 026	6 776	-	12 629	-	35 431
Total gross individually impaired	**29 792**	**14 942**	**824**	**24 285**	**-**	**69 843**
Total gross loans and advances	**676 554**	**531 088**	**225 970**	**318 965**	**239 645**	**1 992 222**
Provision for loan impairment	**(36 639)**	**(21 406)**	**(631)**	**(31 981)**	-	**(90 657)**
Total loans and advances to individuals	**639 915**	**509 682**	**225 339**	**286 984**	**239 645**	**1 901 565**

Gross and net investments in finance lease by their maturity are analysed below:

In thousands of US Dollars	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Gross finance lease receivable as at 31 December 2008	**376 951**	**1 220 267**	**346 462**	**1 943 680**
Less: Future income on finance lease	(85 314)	(510 453)	(42 786)	(638 553)
Net investment in finance leases as at 31 December 2008	**291 637**	**709 814**	**303 676**	**1 305 127**
Gross finance lease receivable as at 31 December 2007	**178 241**	**527 365**	**163 824**	**869 430**
Less: Future income on finance lease	(40 340)	(191 730)	(20 231)	(252 301)
Net investment in finance leases as at 31 December 2007	**137 901**	**335 635**	**143 593**	**617 129**

10 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2008 was as follows:

In thousands of US Dollars	**Corporate loans**	**Loans to SMEs**	**Finance lease receivables**	**Car loans**	**Mortgage loans**	**Total**
Fair value of collateral - loans past due but not impaired						
- residential real estate	16 475	-	-	-	9 947	26 422
- other real estate	86 902	-	-	-	-	86 902
- equipment	-	-	81 286	-	-	81 286
- other assets	3 486	-	-	13 587	-	17 073
Fair value of collateral - individually impaired loans						
- residential real estate	-	-	-	-	6 344	6 344
- other real estate	344 733	7 313	-	-	-	352 046
- equipment	809 172	2 991	7 973	-	-	820 136
- other assets	46 743	253	-	11 138	-	58 134
Total	**1 307 511**	**10 557**	**89 259**	**24 725**	**16 291**	**1 448 343**

Fair value of the collateral was determined by the Group's credit department using the Group's internal guidelines on the basis of an internal expert evaluation, an independent appraiser's evaluation or on the basis of the depreciated replacement cost of the collateral.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired as at 31 December 2007 was as follows:

In thousands of US Dollars	**Corporate loans**	**Loans to small and medium size enterprises**	**Finance lease receivables**	**Loans to individuals - car loans**	**Loans to individuals - mortgage loans**	**Total**
Fair value of collateral - loans past due but not impaired						
- equipment	-	-	20 473	-	-	20 473
- other assets	-	-	-	7 537	-	7 537
Fair value of collateral - individually impaired loans						
- residential real estate	4 228	-	-	-	658	4 886
- other real estate	-	27	-	-	-	27
- cars	-	-	-	11 289	-	11 289
- cash deposits	5 187	118	-	-	-	5 305
- other assets	8 166	-	-	-	-	8 166
Total	**17 581**	**145**	**20 473**	**18 826**	**658**	**57 683**

The Group regularly requires collateral and/or guarantees for loans to legal entities. Acceptable collateral includes real estate, property, equipment, inventories, securities, contractual rights and certain other assets. Guarantees can be provided by controlling shareholders, government entities, banks and other solvent legal entities. As at 31 December 2008 corporate loans in the amount of USD 4 798 910 thousand (2007: USD 3 901 101 thousand) were not secured and loans in the amount of USD 2 470 781 thousand (2007: USD 3 931 275 thousand) were secured only by third party guarantee where guarantors are evaluated on the same basis as the borrower itself. As at 31 December 2008 and 2007 most of the loans to small and medium size enterprises were secured by collateral or guarantees. Finance lease receivables are secured by the leased equipment. Reverse sale and repurchase agreements are effectively collateralised by securities sold under those agreements. As at 31 December 2008 reverse sale and repurchase agreements were collateralised by securities purchased with estimated fair value of USD 38 728 thousand (2007: 512 695 thousand) all of which the Group had right to sell or repledge.

10 Loans and Advances to Customers (Continued)

Credit cards, personal instalment and consumer loans to individuals are not secured. Car loans and mortgage loans to individuals are respectively collateralised by cars and property acquired.

The estimated fair value of loans and advances to customers was as follows:

In thousands of US Dollars	2008 Fair value	2008 Carrying value	2007 Fair value	2007 Carrying value
Corporate loans	12 890 048	13 786 560	12 171 041	12 227 083
Finance lease receivables	1 244 710	1 271 550	604 305	604 305
Loans to individuals - credit cards and PILs	912 538	912 538	639 995	639 915
Loans to individuals - car loans	621 710	681 770	509 682	509 682
Loans to individuals - mortgage loans	465 735	504 939	225 339	225 339
Loans to individuals - consumer loans	457 654	458 513	286 984	286 984
Loans to SMEs	249 539	257 149	198 320	191 068
Advances on lease operations	65 755	65 755	292 555	292 555
Reverse repo - corporate customers and individuals	30 887	30 887	353 159	353 159
Total loans and advances to customers	**16 938 576**	**17 969 661**	**15 281 380**	**15 330 090**

Refer to Note 35 for the discount rates used for fair value calculation. For the purposes of measurement the Group classified all balances included in loans and advances to customers as loans and receivables. Currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

11 Investments and Repurchase Receivables Relating to Investments

In thousands of US Dollars	2008	2007
Russian Federation Rouble bonds and Eurobonds	150 207	-
Corporate Eurobonds	138 030	-
Corporate bonds	28 915	-
Bonds of other states	-	8 969
Total debt investments available for sale	**317 152**	**8 969**
Russian Federation Rouble bonds and Eurobonds	215 070	-
Total repurchase receivables relating to debt investments available for sale	**215 070**	**-**
Total debt investments available for sale and repurchase receivables	**532 222**	**8 969**
Equity investments at fair value through profit and loss	**54 524**	**46 259**
Amtel-Vredestein N.V.	-	50 820
Patriot Capital LLC	-	8 153
Total investments in associates	**-**	**58 973**
Total investments and repurchase receivables relating to investments	**586 746**	**114 201**

11 Investments and Repurchase Receivables Relating to Investments (Continued)

Debt investments available for sale and repurchase receivables relating to debt investments available for sale

Russian Federation Rouble bonds and Eurobonds are interest-bearing securities denominated in Russian Roubles or US Dollars and are freely tradable in the Russian Federation and internationally. As at 31 December 2008 these bonds have maturity dates ranging from March 2009 to February 2036, coupon rates from 5.8% to 10.0% p.a. and yields to maturity from 6.0% to 11.8% p.a., depending on the type of bond issue.

Corporate Eurobonds are interest-bearing securities denominated in US Dollars or Russian Roubles, issued mainly by large Russian and CIS companies, and freely tradable internationally. As at 31 December 2008 these bonds have maturity dates ranging from March 2009 to July 2016, coupon rates from 6.3% to 10.0% p.a. and yields to maturity from 2.4% to 100.0% p.a., depending on the type of bond issue.

Repurchase receivables represent securities sold under sale and repurchase agreements with other banks (Notes 15). The counterparty financial institutions have a right to resell or pledge these securities.

As at 31 December 2008 the analysis by credit quality of debt investments available for sale and repurchase receivables is as follows:

In thousands of US Dollars	**Russian Federation Rouble bonds and Eurobonds**	**Corporate Eurobonds**	**Corporate bonds**	**Total**
Current and not impaired				
- limit above USD 100 million	365 277	7 369	-	372 646
- limit from USD 50 to 100 million	-	74 557	17 400	91 957
- limit below USD 50 million	-	-	770	770
Total current and not impaired debt investments available for sale and repurchase receivables	**365 277**	**81 926**	**18 170**	**465 373**
Individually determined to be impaired				
- limit below USD 50 million	-	56 104	10 745	66 849
Total impaired debt investments available for sale and repurchase receivables	**-**	**56 104**	**10 745**	**66 849**
Total debt investments available for sale and repurchase receivables	**365 277**	**138 030**	**28 915**	**532 222**

As at 31 December 2007 all debt investments available for sale were issued by a counterparty for which the limit set was below USD 50 million.

11 Investments and Repurchase Receivables Relating to Investments (Continued)

Movements in debt investments available for sale and repurchase receivables were as follows:

In thousands of US Dollars	Note	2008	2007
Carrying amount as at 1 January		**8 969**	**374**
Reclassified from trading securities	5	310 511	-
Acquisition of debt investments available for sale		421 099	8 902
Disposals of debt investments available for sale		(12 893)	(374)
Revaluation to fair value		(60 975)	39
Interest income accrued		26 980	28
Interest income received		(23 736)	-
Redemption at nominal value		(7 536)	-
Impairment of debt investments available for sale		(33 841)	-
Effect of exchange rates changes		19 396	-
Effect of translation to presentation currency		(115 752)	-
Carrying amount as at 31 December		**532 222**	**8 969**

Currency, maturity and interest rate analysis of debt investments available for sale and repurchase receivables is disclosed in Note 31.

Investments in associates

The table below summarises the movements in the carrying amount of the Group's investments in associates.

In thousands of US Dollars	2008	2007
Carrying amount as at 1 January	58 973	198 806
Amtel-Vredestein N.V.		
Share of results	(28 546)	(17 714)
Impairment	(20 868)	(12 590)
Translation movement	(1 406)	(17 689)
CTC Media Inc.		
Payments of dividends in-kind by the Company	-	(92 393)
Patriot Capital LLC		
Translation movement	378	553
Liquidation	(8 531)	-
Carrying amount as at 31 December	**-**	**58 973**

Amtel-Vredestein N.V. ("Amtel") As at 31 December 2008 the Group owned a 27.57% interest (2007: 27.57%) in Amtel-Vredestein N.V., a tyre manufacturing company operating in the Russian Federation and Europe. This investment is impaired and is carried at its recoverable amount determined as the investment's fair value. Due to the absence of active market quotations as at 31 December 2008, the fair value as at that date was determined using valuation techniques (2007: using market quotations).

CTC Media Inc. As at 31 December 2006 the Group owned a 20.1% interest in CTC Media Inc. ("CTC"), a Delaware corporation primarily investing in television and radio ventures, operating in the Russian Federation. In January 2007, the Company declared dividends in the amount of USD 92 393 thousand paid in-kind by means of distribution of 20.1% of its interest in CTC, having a book value of USD 92 393 thousand and reducing the Group's interest in CTC to nil.

11 Investments and Repurchase Receivables Relating to Investments (Continued)

Patriot Capital LLC was established to perform certain investment projects. As at 31 December 2007 the Group owned a 50% interest in Patriot Capital LLC. The company was liquidated in June 2008 because its business activities were terminated.

Gains less losses arising from investments

The table below represents an analysis of gains less losses arising from investments:

In thousands of US Dollars	2008	2007
Gains less losses from equity investments at fair value through profit or loss	16 216	34 560
(Losses less gains)/gains less losses on disposed investments available for sale	(5 204)	70
Impairment of investments available for sale	(33 841)	-
Total (losses less gains)/gains less losses arising from investments	**(22 829)**	**34 630**

Information on related party balances is disclosed in Note 36.

12 Other Financial Assets

In thousands of US Dollars	Note	2008	2007
Derivative financial instruments	34	990 698	163 172
Trade debtors		78 450	79 490
Receivables on operations with securities		64 963	197 033
Other		74 066	64 540
Less: Provision for impairment		(13 290)	(6 232)
Total other financial assets		**1 194 887**	**498 003**

As at 31 December 2008 derivative financial instruments included USD 203 754 thousand related to instruments contracted with ABH Ukraine Group (Note 36) and USD 618 593 thousand related to instruments contracted with large international banks.

At 31 December 2008 the Group received margin call deposits as collateral under transactions with derivative financial instruments from its counterparties for the total amount of USD 302 804 thousand (2007: USD 80 392 thousand). Refer to Notes 15 and 16.

Movements in the provision for impairment of other financial assets were as follows:

In thousands of US Dollars	2008	2007
Provision for impairment of other financial assets as at 1 January	**6 232**	**5 744**
Provision for impairment during the year	13 245	258
Amounts written off during the year as uncollectible	(5 036)	(166)
Effect of translation to presentation currency	(1 151)	396
Provision for impairment as at 31 December	**13 290**	**6 232**

12 Other Financial Assets (Continued)

Analysis by credit quality of other financial assets outstanding as at 31 December 2008 was as follows:

In thousands of US Dollars	Derivative financial instruments	Receivab-les on operations with securities	Trade debtors	Other	Total
Current and not impaired with credit history	990 698	47 910	34 247	18 709	1 091 564
Current and not impaired without credit history	-	16 543	32 345	53 279	102 167
Past due and impaired	-	510	11 858	2 078	14 446
Total gross other financial assets	**990 698**	**64 963**	**78 450**	**74 066**	**1 208 177**
Provision for impairment	-	(510)	(10 702)	(2 078)	(13 290)
Total other financial assets	**990 698**	**64 453**	**67 748**	**71 988**	**1 194 887**

Analysis by credit quality of other financial assets outstanding as at 31 December 2007 was as follows:

In thousands of US Dollars	Derivative financial instruments	Receivables on operations with securities	Trade debtors	Other	Total
Current and not impaired with credit history	163 172	179 583	3 129	52 599	398 483
Current and not impaired without credit history	-	17 450	69 406	11 941	98 797
Past due and impaired	-	-	6 955	-	6 955
Total gross other financial assets	**163 172**	**197 033**	**79 490**	**64 540**	**504 235**
Provision for impairment	-	-	(6 232)	-	(6 232)
Total other financial assets	**163 172**	**197 033**	**73 258**	**64 540**	**498 003**

“Entities with credit history" are those entities of which the Group is aware of their credit history more than one year.

As at 31 December 2008 the fair value of each class of financial assets included in other financial assets approximated their carrying value. As at 31 December 2008 the estimated fair value of other financial assets was USD 1 194 887 thousand (2007: USD 498 003 thousand). Refer to Note 35.

For the purposes of measurement the Group classified all balances included in other financial assets, except for derivative financial instruments, as loans and receivables. Refer to Note 34 for information on derivative financial instruments. Currency and maturity analyses of other financial assets are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

13 Other Assets

In thousands of US Dollars	Note	2008	2007
Prepayment of taxes, other than on income		151 062	72 406
Customer relationship	37	79 101	-
Goodwill	37	74 838	-
Prepayment of current income tax		41 905	54 388
Computer software		20 766	16 292
Banking license	37	3 472	-
Investment property	27	-	37 331
Total other assets		**371 144**	**180 417**

Movements in intangible assets during 2008 were as follows:

	2008				2007
In thousands of US Dollars	Goodwill	Computer software	Customer relationship	Banking license	Computer software
Carrying amount as at 1 January	**-**	**16 292**	**-**	**-**	**20 266**
Cost					
Opening balance	-	61 979	-	-	53 805
Additions	-	18 306	-	-	10 415
Acquisition through business combinations (Note 37)	101 612	-	84 751	3 720	-
Impairment	(20 000)	-	-	-	-
Disposals	-	(2 254)	-	-	(3 854)
Translation movement	(6 774)	(4 974)	(5 650)	(248)	1 613
Closing balance	**74 838**	**73 057**	**79 101**	**3 472**	**61 979**
Accumulated depreciation					
Opening balance	-	45 687	-	-	33 539
Amortisation (Note 28)	-	9 411	-	-	10 868
Disposals	-	(484)	-	-	(454)
Translation movement	-	(2 323)	-	-	1 734
Closing balance	**-**	**52 291**	**-**	**-**	**45 687**
Carrying amount as at 31 December	**74 838**	**20 766**	**79 101**	**3 472**	**16 292**

Impairment of goodwill relating to acquisition of OJSC Bank Severnaya Kazna was assessed based on results of post-acquisition due diligence and a provisional purchase price allocation performed by the Management of the Group and taking into account the market developments since the date of acquisition to 31 December 2008. The entire amount of impairment was allocated to the corporate banking segment. Management believes that a fair price was paid for this acquisition which was made shortly before 31 December 2008 and no further impairment of goodwill is required.

The information on related party balances is disclosed in Note 36.

14 Premises and Equipment

In thousands of US Dollars	Premises	Leasehold improve-ments	Office and computer equipment	Construc-tion in progress	Total
Carrying amount as at 31 December 2007	**125 696**	**24 285**	**122 733**	**1 812**	**274 526**
Cost or valuation					
Opening balance	155 101	37 505	227 390	1 812	421 808
Revaluation	(6 081)	-	-	-	(6 081)
Additions and transfers	7 517	5 097	36 326	1 159	50 099
Acquisition through business combinations (Note 37)	112 132	-	16 450	41 966	170 548
Disposals	(9 881)	(1 784)	(10 332)	(7)	(22 004)
Translation movement	(31 244)	(6 295)	(29 393)	(310)	(67 242)
Closing balance	**227 544**	**34 523**	**240 441**	**44 620**	**547 128**
Accumulated depreciation					
Opening balance	29 405	13 220	104 657	-	147 282
Revaluation	(1 053)	-	-	-	(1 053)
Depreciation (Note 28)	3 201	13 677	30 494	-	47 372
Disposals	(165)	(36)	(9 119)	-	(9 320)
Translation movement	(4 970)	(2 794)	(18 984)	-	(26 748)
Closing balance	**26 418**	**24 067**	**107 048**	**-**	**157 533**
Carrying amount as at 31 December 2008	**201 126**	**10 456**	**133 393**	**44 620**	**389 595**

As at 31 December 2007 and 31 December 2008 the Group performed a revaluation of its premises on the basis of a valuation by an independent firm of appraisers. The market value of premises was assessed using the sales comparison method. The negative or positive difference between the carrying amount and the revalued amount less the related deferred tax asset or liability were recorded respectively as a debit or credit to a revaluation reserve in the consolidated statement of changes in equity.

As at 31 December 2008 the carrying amount of premises would have been USD 134 625 thousand (2007: USD 50 979 thousand) had the premises been carried at cost less depreciation.

In thousands of US Dollars	Premises	Leasehold improve-ments	Office and computer equipment	Construc-tion in progress	Total
Carrying amount as at 31 December 2006	**77 162**	**25 207**	**79 756**	**6 012**	**188 137**
Cost or valuation					
Opening balance	96 541	29 313	165 140	6 012	297 006
Revaluation	51 206	-	-	-	51 206
Additions and transfers	578	13 542	62 830	3 007	79 957
Disposals	(986)	(7 728)	(15 157)	(7 649)	(31 520)
Translation movement	7 762	2 378	14 577	442	25 159
Closing balance	**155 101**	**37 505**	**227 390**	**1 812**	**421 808**
Accumulated depreciation					
Opening balance	19 379	4 106	85 384	-	108 869
Revaluation	7 642	-	-	-	7 642
Depreciation (Note 28)	1 711	8 888	24 053	-	34 652
Disposals	(58)	(334)	(11 447)	-	(11 839)
Translation movement	731	560	6 667	-	7 958
Closing balance	**29 405**	**13 220**	**104 657**	**-**	**147 282**
Carrying amount as at 31 December 2007	**125 696**	**24 285**	**122 733**	**1 812**	**274 526**

15 Due to Other Banks

In thousands of US Dollars	2008	2007
Correspondent accounts and overnight placements of other banks		
- Russian Federation	96 559	59 503
- Other countries	174 915	37 242
Term placements of the CBRF	4 960 208	-
Term placements of other banks	1 766 505	2 159 197
Sale and repurchase agreements with the CBRF	405 940	-
Sale and repurchase agreements with other banks	2 938	593 519
Total due to other banks	**7 407 065**	**2 849 461**

As at 31 December 2008 the ten largest aggregate balances due to other banks amounted to USD 6 412 028 thousand (2007: USD 1 594 018 thousand) or 86.6% (2007: 55.9%) of total due to other banks, of which USD 5 366 148 thousand (2007: nil) represented balances outstanding to the CBRF.

As at 31 December 2008 the balances outstanding to the CBRF comprised of the Rouble-denominated loans received (i) under a cross-guarantee lending programme (Note 33) in the amount of USD 1 771 350 thousand bearing interest rates from 8.3% to 12.0% p.a. and having maturity dates ranging from April to June 2009; (ii) under a secured lending programme in the amount of USD 470 740 thousand bearing interest rates from 10.0% to 11.0% p.a. with maturity dates ranging from February to March 2009 and secured by loans and advances to customers in the amount of USD 837 201 thousand (Note 10); (iii) under sale and repurchase agreements in the amount of USD 405 940 thousand with the fair value of securities pledged of USD 404 318 thousand, and (iv) other regular money market finance in the amount of USD 2 718 118 thousand including the finance obtained through unsecured finance auctions.

As at 31 December 2008 own trading securities (Note 8) and investment securities available for sale (Note 11) with the aggregated fair value of USD 365 891 thousand (2007: USD 534 426 thousand) have been sold to third parties under sale and repurchase agreements with the CBRF and other banks. In addition, as at 31 December 2008 trading securities purchased under reverse sale and repurchase agreements with a fair value of USD 43 044 thousand (2007: USD 324 999 thousand) were transferred and therefore effectively pledged under sale and purchase agreements with the CBRF and other banks.

As at 31 December 2008 and 2007 the fair value of each class of financial liabilities included in due to other banks approximated their carrying value. As at 31 December 2008 the estimated fair value of due to other banks was USD 7 407 065 thousand (2007: USD 2 849 461 thousand). Refer to Note 35.

As at 31 December 2008 included within term placements of other banks are margin call deposits in the amount of USD 179 003 thousand (2007: USD 21 700 thousand) received by the Group as collateral under transactions with derivatives with banks.

Currency, maturity and interest rate analyses of due to other banks are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

16 Customer Accounts

In thousands of US Dollars	2008	2007
Commercial organisations		
- Current/settlement accounts	2 023 659	2 524 597
- Term deposits	2 948 189	3 968 881
Individuals		
- Current/demand accounts	3 392 325	3 333 292
- Term deposits	2 753 980	1 585 263
State and public organisations		
- Current/settlement accounts	2 139	32 179
- Term deposits	1 462 774	736 180
Total customer accounts	**12 583 066**	**12 180 392**

Economic sector concentrations within customer accounts were as follows:

	2008		2007	
In thousands of US Dollars	Amount	%	Amount	%
Individuals	6 146 305	48	4 918 555	39
Finance and investment companies	1 762 072	14	726 913	6
State and public organisations	1 464 913	12	768 359	6
Manufacturing	956 532	8	1 058 087	9
Trade and commerce	611 543	5	847 555	7
Energy, oil and gas	592 379	5	2 283 247	19
Mass media and telecommunication	339 940	3	446 561	4
Science	33 526	0	197 717	2
Other	675 856	5	933 398	8
Total customer accounts	**12 583 066**	**100**	**12 180 392**	**100**

As at 31 December 2008 the ten largest aggregate balances amounted to USD 3 715 023 thousand (2007: USD 4 562 847 thousand) or 29.5% (2007: 37.5%) of the total customer accounts, of which USD 1 362 048 thousand (2007: USD 1 774 914 thousand) represented balances outstanding to Alfa Group (Note 36) and its shareholders.

Included in customer accounts are balances in the amount of USD 33 031 thousand (2007: USD 51 554 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

As at 31 December 2008 included within customer accounts are margin call deposits in the amount of USD 123 801 thousand (2007: USD 58 692 thousand) received by the Group as collateral under transactions with derivatives with customers.

As at 31 December 2008 the fair value of each class of financial liabilities included in customer accounts approximated their carrying value. As at 31 December 2008 the estimated fair value of customer accounts was USD 12 583 066 thousand (2007: USD 12 180 392 thousand). Refer to Note 35.

Currency, maturity and interest rate analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

17 Debt Securities Issued

In thousands of US Dollars	**2008**	**2007**
Notes issued under a DPR Programme	693 916	1 047 105
Promissory notes and domestic bonds	411 500	789 192
Euro Medium Term Notes maturing in 2012	381 887	447 414
Euro Medium Term Notes maturing in 2009	381 380	405 467
Euro Medium Term Notes maturing in 2013	302 988	-
Euro-Commercial Papers	218 879	157 385
Euro Medium Term Notes maturing in 2008	-	249 539
Russian Rouble denominated bonds maturing in 2008	-	82 834
Total debt securities issued	**2 390 550**	**3 178 936**

In 2006 the Group established a Diversified Payment Rights Secured Debt Issuance Programme, whereby notes issued under the program are collateralised by the Group's rights to funds being transferred through the Group's correspondent accounts ("DPR Programme").

On 30 March 2007 the Group issued Euro and US Dollar denominated notes with a nominal value of EUR 145 000 thousand and USD 200 000 thousand respectively under the DPR Programme. These notes bear coupon at a rate of EURIBOR plus 1.9% per annum and LIBOR plus 2.0% per annum respectively payable quarterly. The notes are repayable by quarterly instalments starting from 15 June 2007 for Euro denominated notes and 15 June 2008 for US Dollar denominated notes until maturity on 15 March 2012. As at 31 December 2008 the effective interest rate was 5.6% per annum for EUR-denominated bonds and 4.3% per annum for USD-denominated bonds (2007: 7.2% and 8.3% per annum respectively). The issue proceeds net of transaction costs amounted to EUR 144 087 thousand and USD 198 464 thousand.

On 7 December 2006 the Group issued Euro and US Dollar denominated notes with a nominal value of EUR 230 000 thousand and USD 260 000 thousand respectively under the DPR Programme. These notes bear coupon at a rate of EURIBOR plus 1.9% per annum and LIBOR plus 1.9% per annum respectively payable quarterly. The notes are repayable by quarterly instalments starting from 15 March 2007 until maturity on 15 December 2011. As at 31 December 2008 the effective interest rate was 5.8% per annum for EUR-denominated bonds and 4.5% per annum for USD-denominated bonds (2007: 7.2% and 8.2% per annum respectively). The issue proceeds net of transaction costs amounted to EUR 228 468 thousand and USD 258 259 thousand.

On 30 March 2006 the Group issued US Dollar denominated notes with a nominal value of USD 350 000 thousand under the DPR Programme. These notes bear a coupon at a rate of LIBOR plus 1.6% per annum payable quarterly and are repayable by quarterly instalments starting from 15 June 2006 until maturity on 15 March 2011. As at 31 December 2008 the effective interest rate was 4.1% per annum (2007: 8.3% per annum). The issue proceeds net of transaction costs amounted to USD 344 175 thousand.

The Group is also required to deposit with designated banks funds covering the repayment of the next quarterly instalment for the notes issued under the DPR Programme (Note 9).

As at 31 December 2008 the Group repurchased on the market notes issued under the DPR Programme with a nominal value of USD 44 386 thousand and EUR 46 868 thousand (2007: USD 32 900 thousand and EUR 5 100 thousand).

Promissory notes and domestic bonds comprise of debt securities issued by the Group with a discount to face value or with interest accrual in Russian Roubles, US Dollars and Euros and bear an effective interest rate from 0.0% to 12.5% depending on the type of issue and currency of the security (2007: from 0.0% to 8.0% p.a.).

On 22 June 2004 the Group established a Euro Medium Term Note Programme ("MTN Programme") with a limit of the aggregate principal amount of outstanding notes issued under the MTN Programme of USD 1 000 000 thousand which was increased in November 2006 up to USD 2 000 000 thousand.

17 Debt Securities Issued (Continued)

On 24 June 2008 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 400 000 thousand. The notes carry a fixed coupon at a rate of 9.25% per annum payable semi-annually and mature on 24 June 2013. The issue proceeds net of transaction costs and discount amounted to USD 398 126 thousand and the effective interest rate at origination was 9.6% per annum.

On 25 June 2007 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 500 000 thousand. The notes carry a fixed coupon at a rate of 8.2% per annum payable semi-annually and mature on 25 June 2012. The issue proceeds net of transaction costs and discount amounted to USD 497 918 thousand and the effective interest rate at origination was 8.5% per annum.

On 3 October 2006 the Group issued notes under the MTN Programme with an aggregate nominal amount of USD 400 000 thousand. The notes carry a fixed coupon at a rate of 7.875% per annum payable semi-annually and mature on 10 October 2009. The issue proceeds net of transaction costs and discount amounted to USD 398 586 thousand and the effective interest rate at origination was 8.2% per annum.

As at 31 December 2008 the Group repurchased on the market notes issued under the MTN Programme with a nominal value of USD 239 084 thousand (2007: USD 52 000 thousand).

On 11 December 2003 the Group established a Euro Commercial Paper Programme ("ECP Programme"). Initially the aggregate principal amount of outstanding notes issued under the ECP Programme at any time was not to exceed USD 200 000 thousand and the term of the notes was not to be more than 365 days. In November 2006, the maximum allowed principal amount of outstanding notes was increased to USD 1 000 000 thousand. As at 31 December 2008 the nominal value of outstanding notes was USD 162 210 thousand and EUR 43 000 thousand (2007: USD 102 950 thousand and EUR 40 000 thousand) and they were issued at a discount to the nominal value ranging from 7.5% to 8.3% (2007: 5.0% to 6.7%) depending on the type of issue. As at 31 December 2008 the average effective interest rate at origination on notes outstanding was 8.8% for USD-denominated notes and 8.8% for EUR-denominated notes (2007: 7.2% and 7.1% respectively).

The financial result from repurchase of debt securities issued is disclosed in Note 26.

As at 31 December 2008 and 2007 the fair values of debt securities issued estimated either using ask price if the security is quoted or valuation techniques (Note 35) if the security is unquoted were as follows:

	2008		2007	
In thousands of US Dollars	**Total fair value**	**Carrying value**	**Total fair value**	**Carrying value**
Notes issued under a DPR Programme	696 361	693 916	1 022 769	1 047 105
Promissory notes and domestic bonds	408 664	411 500	786 261	789 192
Euro Medium Term Notes maturing in 2012	229 177	381 887	423 722	447 414
Euro Medium Term Notes maturing in 2009	372 878	381 380	394 818	405 467
Euro Medium Term Notes maturing in 2013	215 126	302 988	-	-
Euro-Commercial Papers	218 879	218 879	157 385	157 385
Euro Medium Term Notes maturing in 2008	-	-	248 871	249 539
Russian Rouble denominated bonds maturing in 2008	-	-	82 858	82 834
Total debt securities issued	**2 141 085**	**2 390 550**	**3 116 684**	**3 178 936**

Refer to Note 35 for the discount rates used for fair valuation.

Currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 31.

18 Syndicated and Other Loans

In thousands of US Dollars	2008	2007
Syndicated loan maturing on 23 January 2009	455 748	457 698
Loan from SDIA maturing on 9 December 2013	266 520	-
Syndicated loan maturing on 13 July 2009	249 294	-
Syndicated loan maturing on 14 January 2010	70 527	-
Syndicated loan maturing on 7 July 2009	20 022	-
Syndicated loan maturing on 23 May 2009	1 737	-
Syndicated loan maturing on 23 July 2008	-	462 571
Syndicated loan maturing on 7 November 2008	-	307 960
Syndicated loan maturing on 17 December 2008	-	125 861
Syndicated and other loans	**1 063 848**	**1 354 090**

On 25 July 2007 the Group received a syndicated loan in the amount of USD 900 000 thousand by two tranches in the amount of USD 447 875 thousand and USD 452 125 thousand. The first tranche matured on 23 January 2009 and bore a floating interest rate of LIBOR plus 0.6% per annum payable semi-annually. The second tranche matured on 23 July 2008 and was repaid in the amount of USD 452 125 thousand at its maturity date. As at 31 December 2008 the effective interest rate was 3.8% per annum for the first tranche. The issue proceeds net of transaction costs amounted to USD 445 148 thousand for the first tranche and USD 450 277 thousand for the second tranche and effective interest rate at origination was 3.8% per annum for the first tranche and 4.0% per annum for the second tranche. The second tranche was fully repaid on 23 January 2009.

On 9 December 2008 in relation to the acquisition of OJSC Bank Severnaya Kazna (Note 37) the Group received a RR 7 800 000 thousand loan from the State Deposit Insurance Agency ("SDIA") carrying a fixed interest rate of 6.5% p.a. payable monthly. The loan is repayable in 5 instalments: four instalments of RR 1 000 million payable on 9 December each year from 2009 to 2012 and the fifth instalment of RR 3 800 million payable on 9 December 2013. The loan is secured by loans and advances to customers in the amount of USD 395 929 thousand (Note 10).

On 14 July 2008 the Group received a syndicated loan in the amount of USD 315 000 thousand by two tranches in the amount of USD 245 500 thousand and USD 69 500 thousand. The first tranche matures on 13 July 2009 and bears floating interest rate of LIBOR plus 1.0% per annum payable semi-annually. The second tranche matures on 14 January 2010 and bears floating interest rate of LIBOR plus 1.3% per annum payable semi-annually. As at 31 December 2008 the effective interest rate was 4.9% per annum for the first tranche and 5.1% per annum for the second tranche. The issue proceeds net of transaction costs amounted to USD 243 544 thousand for the first tranche and USD 68 861 thousand for the second tranche.

As at 31 December 2008 and 2007 the estimated fair value of syndicated and other loans was USD 1 023 848 thousand (2007: USD 1 360 608 thousand).

Refer to Note 35 for the discount rates used for fair value calculation. Currency, maturity and interest rate analyses of syndicated loans are disclosed in Note 31.

19 Subordinated Debt

In thousands of US Dollars	**2008**	**2007**
Subordinated loan maturing in 2017	264 437	300 909
Subordinated loan maturing in 2015	199 278	225 097
Total subordinated debt	**463 715**	**526 006**

On 22 February 2007 the Group issued subordinated notes in the amount of USD 300 000 thousand. The notes bear a fixed interest rate of 8.635% per annum payable semi-annually from the issuance until 22 February 2012 and a floating interest rate thereafter set at a rate per annum representing the aggregate of the US Treasury Rate plus 5.46% per annum payable semi-annually until maturity on 22 February 2017. The Group has an option to repay this subordinated loan at nominal on 22 February 2012. The issue proceeds net of transaction costs were equal to USD 298 525 thousand and effective interest rate at origination was 9.0% per annum. As at 31 December 2008 the Group repurchased on the market the subordinated notes maturing in 2017 with a nominal value of USD 41 915 thousand (2007: USD 6 500 thousand).

On 9 December 2005 the Group issued subordinated notes in the amount of USD 225 000 thousand. The notes bear a fixed interest rate of 8.625% per annum payable semi-annually from the issuance until 9 December 2010 and a floating interest rate thereafter set at US Treasury Rate plus 6.3% per annum payable semi-annually until maturity on 9 December 2015. The Group has an option to repay this subordinated loan on 9 December 2010. The issue proceeds net of transaction costs were equal to USD 223 610 thousand and effective interest rate at origination was 9.0% per annum. As at 31 December 2008 the Group repurchased on the market the subordinated notes maturing in 2015 with a nominal value of USD 26 250 thousand (2007: nil).

The financial result from repurchase of subordinated debt is disclosed in Note 26.

As at 31 December 2008 and 2007 the fair value of subordinated debt determined using the asking price was as follows:

	2008		**2007**	
In thousands of US Dollars	**Total fair value**	**Carrying value**	**Total fair value**	**Carrying value**
Subordinated loan maturing in 2017	133 841	264 437	282 866	300 909
Subordinated loan maturing in 2015	126 842	199 278	217 184	225 097
Total subordinated debt	**260 683**	**463 715**	**500 050**	**526 006**

Currency, maturity and interest rate analyses of subordinated debt are disclosed in Note 31.

20 Other Financial Liabilities

In thousands of US Dollars	Note	2008	2007
Derivative financial instruments	34	533 472	150 775
Trade creditors		88 951	93 185
Payable on operations with securities		86 428	155 337
Provision for losses on credit related commitments	33	45 905	21 383
Plastic card and other settlements with clients		19 634	118 648
Conversion operations		19 116	2 669
Other		39 434	23 597
Total other financial liabilities		**832 940**	**565 594**

As at 31 December 2008 the fair value of each class of financial liabilities included in other financial liabilities approximated their carrying value. As at 31 December 2008 the estimated fair value of other financial liabilities was USD 832 940 thousand (2007: USD 565 594 thousand). Refer to Note 35.

Currency and maturity analyses of other financial liabilities are disclosed in Note 31. The information on related party balances is disclosed in Note 36.

21 Other Liabilities

In thousands of US Dollars	2008	2007
Accrued staff costs	60 327	105 271
Current income tax payable	40 322	17 905
Taxation payable, other than on income	9 973	421
Other	-	4 948
Total other liabilities	**110 622**	**128 545**

22 Share Capital

	2008		2007	
In thousands of US Dollars	**Number of shares**	**Total share capital, in thousands of US Dollars**	**Number of shares**	**Total share capital, in thousands of US Dollars**
Total share capital as at 1 January	**694 800 000**	**694 800**	**344 800 000**	**344 800**
New shares issued	250 000 000	250 000	350 000 000	350 000
Total share capital as at 31 December	**944 800 000**	**944 800**	**694 800 000**	**694 800**

On 30 June 2008 the Company issued to ABHH 250 000 000 additional new ordinary shares in exchange for cash consideration of USD 250 000 thousand. On 28 June 2007 the Company issued to ABHH 350 000 000 additional new shares in exchange for cash consideration of USD 350 000 thousand.

As at 31 December 2008 authorised, issued and fully paid share capital of ABH Financial Limited comprised 944 800 000 ordinary shares (31 December 2007: 694 800 000 ordinary shares). All shares have a nominal value of USD 1 per share and rank equally. Each share carries one vote.

In January 2007 the Company declared dividends in the amount USD 92 393 thousand or USD 0.27 per share paid in kind by means of distribution of the total interest in one of its associates (Note 11).

23 Interest Income and Expense

In thousands of US Dollars	2008	2007
Interest income		
Loans and advances to corporate customers	2 062 244	1 197 309
Loans and advances to individuals	451 096	269 109
Due from other banks	159 234	162 193
Trading securities and repurchase receivables	124 737	77 494
Debt investments available for sale and repurchase receivables	26 980	28
Other	-	110
Total interest income	**2 824 291**	**1 706 243**
Interest expense		
Term deposits of legal entities	593 172	170 019
Due to other banks	251 145	128 601
Debt securities issued	229 984	202 292
Current/ settlement accounts	116 016	88 459
Term deposits of individuals	108 532	78 525
Syndicated loans	60 202	75 632
Subordinated debt	45 770	41 850
Other	912	4 833
Total interest expense	**1 405 733**	**790 211**
Expenses directly attributable to lending operations	**36 665**	**17 015**
Net margin from lending operations	**1 381 893**	**899 017**

Expenses directly attributable to lending operations include property tax and insurance costs relating to the leased assets which are directly attributable to finance leasing operations and regular contributions to the State Deposit Insurance Agency.

Refer to Note 36 for details of related party transactions.

24 Fee and Commission Income and Expense

In thousands of US Dollars	2008	2007
Fee and commission income		
Commission on settlement transactions	249 522	169 637
Commission on cash and foreign currency exchange transactions	68 556	55 133
Commission for consulting services	48 699	56 463
Agency commission on insurance operations	21 485	6 606
Commission on guarantees issued	15 297	16 536
Commission on transactions with securities	8 337	8 621
Commission from fiduciary activities	2 894	1 589
Other	5 903	4 388
Total fee and commission income	**420 693**	**318 973**
Fee and commission expense		
Commission on settlement transactions	56 860	38 819
Commission on cash and foreign currency exchange transactions	6 534	7 646
Commission for consulting services	6 180	7 072
Commission on transactions with securities	4 183	4 853
Commission from fiduciary activities	1 706	484
Other	4 291	1 732
Total fee and commission expense	**79 754**	**60 606**
Net fee and commission income	**340 939**	**258 367**

Refer to Note 36 for details of related party transactions.

25 Trading Gains

In thousands of US Dollars	2008	2007
Spot deals	(193 701)	35 587
Term deals	267 224	7 716
Total gains less losses arising from trading securities	**73 523**	**43 303**

In thousands of US Dollars	2008	2007
Spot deals	(359 993)	31 257
Term deals	(134 351)	95 246
Foreign exchange translation gains less losses / (losses less gains)	775 022	(107 546)
Total gains less losses arising from foreign currencies and precious metals	**280 678**	**18 957**

26 Gains Arising from Acquisition of Own Debts

In thousands of US Dollars	Note	2008	2007
Euro Medium Term Notes maturing in 2013	17	47 376	-
Euro Medium Term Notes maturing in 2012	17	27 328	648
Notes issued under a DPR Programme	17	21 015	610
Euro Medium Term Notes maturing in 2009	17	5 915	906
Subordinated loan maturing in 2017	19	21 523	573
Subordinated loan maturing in 2015	19	15 680	-
Total gains arising from acquisition of own debts		**138 837**	**2 737**

27 Other Operating Income

In thousands of US Dollars	Note	2008	2007
Revenue from sale of rights to film licenses		45 000	1 232
Gain on disposal of investment property	13	13 053	3 878
Dividend income		2 358	4 005
Penalties received		2 310	351
Other		16 320	5 971
Total other operating income		**79 041**	**15 437**

Refer to Note 36 for details of related party transactions.

28 Operating Expenses

In thousands of US Dollars	Note	2008	2007
Staff costs		430 328	369 639
Rent		83 837	58 372
Computer and telecommunications expenses		53 190	61 560
Depreciation	14	47 372	34 652
Expenses related to premises and equipment		36 776	34 318
Consulting and professional services		29 641	20 063
Maintenance		25 247	18 637
Taxes other than income tax		24 019	8 541
Advertising and marketing		20 600	19 003
Administrative expenses		17 269	11 351
Travel expenses		9 414	9 072
Amortisation of computer software	13	9 411	10 868
Other		26 145	25 889
Total operating expenses		**813 249**	**681 965**

Staff costs include contributions to the Russian state pension plan made by the Group for its personnel employed in Russia in the amount of USD 32 818 thousand (2007: USD 27 451 thousand). The state pension plan is classified as a defined contribution plan because the Group does not have any legal or constructive obligation to make further contributions if the state pension plan would not hold sufficient assets to pay all employee benefits relating to employees' past service. Included within staff costs are long-term bonuses in the amount of USD 9 146 thousand (2007: USD 8 613 thousand), which are payable at least one year after balance sheet date.

Refer to Note 36 for details of related party transactions.

29 Income Taxes

Income tax expense comprises the following:

In thousands of US Dollars	2008	2007
Current tax	148 064	105 368
Deferred tax	22 495	(29 920)
Income tax expense for the year	**170 559**	**75 448**

The statutory income tax rate applicable to the majority of Alfa-Bank's income is 24% (2007: 24%). The income tax rate applicable to the majority of income from investment banking operations ranges from 0% to 15% (2007: from 0% to 15%).

On 26 November 2008 the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented below represents the effect of applying the enacted tax rate of 20% to deferred tax balances as at 31 December 2008.

In thousands of US Dollars	2008	2007
IFRS profit before tax	**400 689**	**328 934**
Theoretical tax charge at the statutory rate (2008: 24%; 2007: 24%)	96 165	78 944
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Impact of change in tax rate to 20% effective from 1 January 2009	(911)	-
- Effect of change in estimates relating to deductibility of provision for loan impairment on deferred taxation (Note 4)	64 879	-
- Effect of change in estimates relating to deductibility of provision for loan impairment on current taxation (Note 4)	49 002	-
- Non-deductible expenses	12 224	8 326
- Income which is exempt from taxation	(3 911)	(2 235)
- Income earned in tax free jurisdictions	(46 889)	(9 587)
Income tax expense for the year	**170 559**	**75 448**

Differences between IFRS and statutory taxation regulations in Russia and other countries give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movement of these temporary differences is detailed below and recorded mainly at the rate of 20% (2007: 24%), except for income on state securities that is taxed at 15% and dividend income that is taxed at 9%.

29 Income Taxes (Continued)

In thousands of US Dollars	31 December 2007	Translation movement recorded directly in equity	Business combi-nations	Recorded in profit or loss	Recorded directly in equity	31 December 2008
Tax effect of deductible temporary differences						
Accruals	20 883	(3 347)	2 201	(5 874)	-	13 863
Available for sale investments	-	(136)	-	3 093	10 821	13 778
Provision for loan impairment	32 850	(4 042)	13 168	(41 976)	-	-
Trading securities	1 525	(467)	-	5 774	-	6 832
Other	7 046	(1 352)	-	3 987	-	9 681
Gross deferred tax asset	**62 304**	**(9 344)**	**15 369**	**(34 996)**	**10 821**	**44 154**
Deferred tax netted off within individual entities	-	-	-	(19 671)	-	(19 671)
Deferred tax asset	**62 304**	**(9 344)**	**15 369**	**(54 667)**	**10 821**	**24 483**
Tax effect of taxable temporary						
Premises and equipment	(49 067)	7 566	(17 679)	18 745	3 995	(36 440)
Intangible assets and other fair value adjustments	-	676	(10 138)	-	-	(9 462)
Investments	-	(7)	-	(7 843)	-	(7 850)
Provision for loan impairment	-	-	-	(5 054)	-	(5 054)
Investment property	(7 772)	1 119	-	6 653	-	-
Gross deferred tax liability	**(56 839)**	**9 354**	**(27 817)**	**12 501**	**3 995**	**(58 806)**
Deferred tax netted off within individual entities	-	-	-	19 671	-	19 671
Deferred tax liability	**(56 839)**	**9 354**	**(27 817)**	**32 172**	**3 995**	**(39 135)**
Total net deferred tax asset/(liability)	**5 465**	**10**	**(12 448)**	**(22 495)**	**14 816**	**(14 652)**

29 Income Taxes (Continued)

In thousands of US Dollars	31 December 2006	Translation movement recorded directly in equity	Recorded in profit or loss	Recorded directly in equity	31 December 2007
Tax effect of deductible temporary differences					
Tax loss carried forward	2 740	76	(2 816)	-	-
Provision for loan impairment	-	1 378	31 472	-	32 850
Trading securities	-	64	1 461	-	1 525
Accruals	22 565	1 502	(3 184)	-	20 883
Other	6 056	464	526	-	7 046
Gross deferred tax asset	**31 361**	**3 484**	**27 459**	-	**62 304**
Deferred tax netted off within individual entities	(28 621)	-	28 621	-	-
Deferred tax asset	**2 740**	**3 484**	**56 080**	-	**62 304**
Tax effect of taxable temporary differences					
Premises, equipment and intangible assets	(8 676)	(2 428)	(27 507)	(10 456)	(49 067)
Provision for loan impairment	(25 056)	(735)	25 791	-	-
Investment property	(7 242)	(526)	(4)	-	(7 772)
Trading securities	(4 062)	(119)	4 181	-	-
Gross deferred tax liability	**(45 036)**	**(3 808)**	**2 461**	**(10 456)**	**(56 839)**
Deferred tax netted off within individual entities	28 621	-	(28 621)	-	-
Deferred tax liability	**(16 415)**	**(3 808)**	**(26 160)**	**(10 456)**	**(56 839)**
Total net deferred tax (liability)/asset	**(13 675)**	**(324)**	**29 920**	**(10 456)**	**5 465**

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

30 Segment Analysis

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organised on a basis of four main business segments:

- Corporate banking - comprises corporate lending, leasing, corporate deposit services, trade finance operations and structured corporate lending.
- Retail banking - comprises retail demand and term deposit services, credit and debit card services, retail lending, including consumer loans and personal instalment loans, car loans and mortgages, money transfers and private banking services.
- Investment banking - comprises securities trading, debt and equity capital markets services, derivative products, structured financing, corporate finance advisory services and merger and acquisition advice.
- Treasury - comprises the Group's funding activities and investing in liquid assets.

Under the current transfer pricing system used by the Group funds are ordinarily reallocated between segments at internal interest rates set by the Treasury Department of the Group, which are determined by reference to existing interest rate benchmarks.

30 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 is set out below:

In thousands of US Dollars	Corporate banking	Investment banking	Retail banking	Treasury	Elimina-tions	Total
2008						
Segment revenues						
External revenues	2 220 316	247 897	637 589	218 223	-	3 324 025
Revenues from other segments	1 254 816	48 317	257 072	2 003 405	(3 563 610)	-
Total revenues	**3 475 132**	**296 214**	**894 661**	**2 221 628**	**(3 563 610)**	**3 324 025**
Total revenues comprise:						
Interest income						2 824 291
Fee and commission income						420 693
Other operating income						79 041
Total revenues						**3 324 025**
Segment result	**(102 543)**	**74 556**	**(6 566)**	**520 159**	**-**	**485 606**
Unallocated costs						(35 503)
Share of results and impairment of associates						(49 414)
Profit before tax						**400 689**
Income tax expense						(170 559)
Profit for the year						**230 130**
Other segment items						
Capital expenditure	(222 561)	(15 179)	(189 244)	(2 052)	-	(429 036)
Depreciation and amortisation	(15 895)	(12 600)	(26 584)	(1 704)	-	(56 783)
Other non-cash expenses	(848 648)	(35 239)	(153 834)	(4 850)	-	(1 042 571)
31 December 2008						
Segment assets	**15 569 545**	**2 128 091**	**2 606 635**	**13 958 169**	**(7 276 442)**	**26 985 998**
Investments in associates						-
Current and deferred tax asset						66 388
Total assets						**27 052 386**
Segment liabilities	**12 042 776**	**1 180 827**	**6 146 305**	**12 545 193**	**(7 276 442)**	**24 638 659**
Unallocated liabilities						172 825
Current and deferred tax liability						79 457
Total liabilities						**24 890 941**

30 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2007 is set out below:

In thousands of US Dollars	Corporate banking	Investment banking	Retail banking	Treasury	Eliminations	Total
2007						
Segment revenues						
External revenues	1 289 752	219 718	409 412	121 771	-	2 040 653
Revenues from other segments	329 671	31 812	211 817	896 263	(1 469 563)	-
Total revenues	**1 619 423**	**251 530**	**621 229**	**1 018 034**	**(1 469 563)**	**2 040 653**
Total revenues comprise:						
Interest income						1 706 243
Fee and commission income						318 973
Other operating income						15 437
Total revenues						**2 040 653**
Segment result	**419 832**	**159 747**	**(222 983)**	**77 323**	**-**	**433 919**
Unallocated costs						(74 681)
Share of results and impairment of associates						(30 304)
Profit before tax						**328 934**
Income tax expense						(75 448)
Profit for the year						**253 486**
Other segment items						
Capital expenditure	(58 048)	(7 034)	(24 547)	(743)	-	(90 372)
Depreciation and amortisation	(29 239)	(3 543)	(12 364)	(374)	-	(45 520)
Other non-cash expenses	(69 129)	-	(178 979)	-	-	(248 108)
31 December 2007						
Segment assets	**15 181 225**	**3 002 711**	**4 717 898**	**6 247 765**	**(6 630 704)**	**22 518 895**
Investments in associates						58 973
Current and deferred tax asset						116 692
Total assets						**22 694 560**
Segment liabilities	**13 889 288**	**2 529 548**	**5 172 612**	**5 728 314**	**(6 630 704)**	**20 689 058**
Unallocated liabilities						76 061
Current and deferred tax liability						74 744
Total liabilities						**20 839 863**

Geographical segments. Refer to Note 31.

31 Financial Risk Management

The Group systematically exploits the opportunities available to it to achieve its growth targets without losing sight of the related risks. The Group applies across all product lines a unified risk management practice comprised of credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk management. The primary objective of the Group's risk management is to achieve an optimal level of risk-return of its operations.

The risk management function within the Group is carried out in respect of financial risks (credit, market, currency, liquidity and interest rate), and operational risks. The financial risk management function establishes risk limits and ensures that exposure to risks stays within these limits. The operational risk management functions are intended to ensure proper functioning of internal processes and procedures to minimise the Group's exposure to internal and external risk factors other than those from financial instruments.

The Group's approach to managing risks is composed of three key elements: (i) risk governance, (ii) risk identification, and (iii) risk assessment, management and control.

Risk governance. The Board of Directors of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and approving significantly large exposures.

The Audit Committee is responsible for overseeing the internal control framework, assessing the adequacy of risk management and compliance policies and procedures. It convenes regularly and provides recommendations to the Board of Directors on development of the risk management framework as well as its views on the quality of risk management and compliance.

The Executive Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Risk Management Department is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting risks.

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

Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan have their own Risk Management and Treasury Departments. For purpose of execution of lending operations these banks have limited authorities for credit decisions, and all credit exposures exceeding their authorities have to be approved by the Group's credit committees. For purpose of execution of operations with financial instruments Amsterdam Trade Bank N.V. follows the Investment Policy approved by Amsterdam Trade Bank N.V.'s Board of Directors; limits for JSC SB Alfa-Bank Kazakhstan's positions are defined by ALCO. Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan are consolidated for calculation of open currency position and interest rate risk exposure. The financial risk management of OJSC Bank Severnaya Kazna is performed centrally by Alfa-Bank. OJSC Bank Severnaya Kazna is not authorised to perform unilateral treasury and lending management functions.

Risk identification. Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk overviews that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. An overview of the key risks is regularly reported to the Executive Board and the Board of Directors of the Group.

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

31 Financial Risk Management (Continued)

There were not significant changes to the system of risk management in year 2008 compared to year 2007. A number of actions were taken throughout year 2008 to tighten policies and other requirements to mitigate the risks arising from deteriorating economic conditions.

Credit risk. The Group takes on exposure to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry sectors, etc. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board regularly approves limits on the level of credit risk by product, borrower and industry sectors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

The analysis by credit quality of financial assets is based on their stratification by set limits: higher limits are assigned to the counterparties whose credit quality is better.

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

The Group defines its risk appetite by approving a Lending Policy, assigning authority to decide on risk taking issues to committees, and granting specific approval of large transactions. The Lending Policy sets forth the framework for monitoring exposure to credit risk, including portfolio concentration limits and definition of responsibilities. During year 2008 the Lending Policy was revised by tightening the rules and increasing risk margins. The main changes were stricter concentration limits, increased interest rates, tightening of the requirements for collateral and restriction on the share of unsecured loans.

The Group's credit committees are responsible for approving credit exposures. Each credit committee conducts its activity based on the special instructions approved by the Board of Directors.

- Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or Supplementary Credit Committees. The ceiling of risk level is approved by the Executive Board. These committees convene weekly and their members are representatives of the Credit Department, the Risk Management Department, the Legal Department, Treasury Department and other relevant departments. The membership of the committees reflects the balanced approach to credit risk undertaken. The most material transactions above USD 100 000 thousand have to be approved by the Executive Board. In certain circumstances (for example, based on tenor or size) loans approved by the Main Credit Committee are required to be approved by the Executive Board or Board of Directors.

- The Retail Credit committee monitors the performance of the retail portfolio and trends for future consideration. The retail lending portfolio includes the following classes of loans to individuals: credit cards and personal instalment loans, car loans, consumer loans. The Retail Credit committee approves new retail credit products, effective margins on all retail products, controls the provisioning level for the retail portfolio and write offs for the retail portfolio, makes other decisions regarding retail lending. The committee convenes monthly and its members are representatives of all key retail departments of the Group.

Credit Process. In corporate wholesale lending, all transactions undergo a standardized underwriting procedure, including a thorough examination of a prospective borrower's creditworthiness, quality of proposed collateral and transaction's structure compliance with the Group's policies and limits.

The Credit Department examines a probable transaction thoroughly with special attention being paid to the analysis of financial stability, cash-flow adequacy, long-term viability, credit history, competitive position and quality of collateral. Based on the assessment of the transaction's and borrower's risks, an internal rating is assigned to the borrower, collateral provided and the transaction as a whole.

31 Financial Risk Management (Continued)

The rating assignment is governed by an internal rating methodology. In accordance with the internal rating methodology the transaction is assigned a rating category from I to V.

- rating I - high quality credit transaction; the given rating is characterized with minimum credit risk of the transaction due to a great safety cushion of cash flows of the borrower and analyzed transaction combined with high quality collateral;
- rating II - standard quality credit transaction; assignment of such rating usually means low probability of default on such transactions due to an optimal combination of quality of cash flows of the borrower and analyzed transaction and proper collateral;
- rating III - stable quality credit transaction; assignment of such rating usually means acceptable quality of cash flows of the borrower and analyzed transaction and/or collateral;
- rating IV - low quality credit transaction; such transactions have rather high probability of default because of their poor quality and the lack or poor quality of collateral; and
- rating V - non-viable transaction; credit risk of the transaction is estimated as high, the incentive to grant such loans usually lay beyond the usual parity of risk and rewards. The Group does not enter into transactions with initial rating V.

The Risk Management Department reviews the analysis and the appropriateness of the ratings assignment and draws a conclusion. The conclusion of the Risk Management Department and the financial analysis of the client are given to the consideration of the relevant Credit Committee. The Credit Committees review the loan applications for approval of a credit limit on the basis of information provided. A limit is proposed to accommodate the exposure to a client within the guidelines set for maximum customer exposure and concentration limits.

For the purposes of the credit risk management the Group stratified the loan portfolio to the following pools:

- Current loans pool includes current loans and loans technically overdue for less than 14 days which have ratings I-IV.
- Watch-list loans pool includes loans overdue for less than 14 days which demonstrated deterioration of credit quality.
- Problem loans pool includes loans with signs of impairment and loans overdue for more than 14 days, which however could be partially recovered.
- Defaulted loans pool includes loans which recovery requires foreclosure of collateral, commencement of litigation procedures.

Throughout 2008 transaction controls were strengthened: new loans within previously approved limits were granted to highly leveraged borrowers only after additional approval from the Risk Management Department.

Due to the nature of retail business, the Retail Risk Management Department has different risk management processes. Retail lending decisions are based on acceptance through use of credit and fraud scores. The application and fraud scores are bespoke developments based on internal lending performance history. Therefore the scores can be developed only based on historical performance which is available only after a statistically significant number of transactions. The scores are administered in a secure automated technology environment, all approve/decline decisions are subject to risk determined cut offs, and no overrides are permitted. The scores are monitored for their stability and effectiveness every month and suitable amendments are made should there be a need.

During 2008 some changes were introduced in order to tighten retail lending standards in view of expected recessionary trends. These changes primary related to the following areas: tighter acquisition cut offs on application score; introduction of new application scorecards for some segments that were earlier acquired through policy framework alone; lowering credit limits and debt burden ratios; broader coverage of credit bureaus before acquisition; stricter verification standards before approval; closure of high risk segments in specific pools in specific regions; reevaluation and change in pricing in line with higher anticipated risk; introduction of collection scores and tighter collection strategy and changes to upsell processes towards more tighter standards before upsell.

31 Financial Risk Management (Continued)

Monitoring. The level of credit risk exposure of the Group is subject to a monitoring process.

Exposure to credit risk is managed by the Credit Department through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees. The Credit Department identifies potentially problematic deals using an unambiguous set of criteria to assign a problem status to a transaction, as well as escalation procedures based on problem status. Any significant exposures to a customer with a deteriorating creditworthiness are reported to and reviewed by the relevant Credit Committee.

During 2008 corporate and SME credit monitoring procedures were tightened: relationship managers and credit managers are obliged to visit clients monthly/quarterly/semi-annually depending on credit quality of the customers and magnitude of the exposure. Analysis of clients' sales, margins and loan portfolio dynamics is carried out on a monthly basis. There were several new control procedures developed: e.g. new reports from Operations on trades with various delays or problems, exposure reports on margin trading deals (in addition to existing controls of limits and margin), etc.

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

Portfolio concentration limits are checked on a weekly basis and reported to the Main Credit Committee, as well as situations where limits utilization is close to maximum. The Main Credit Committee ensures that the impact of new transactions on the concentration within the portfolio is commensurate with the Group's risk appetite and portfolio limit structure.

Control. There is a control environment established in the Group, in which all of its activities relating to credit exposure are taking place. The purpose of the implemented controls is to ensure a strict adherence to the Group's policies and procedures.

The Group has implemented control mechanisms that promote the delivery of effective risk management. Such mechanisms include: (i) producing regular portfolio monitoring reports and regularly presenting those to the relevant Credit Committee, (ii) setting credit policy core principles that govern the detailed department-level policies, (iii) subjecting policies to regular review, (iv) establishing lending guidelines that provide for a disciplined and focused approach to decision-making, (v) using statistically-based decision-making techniques such as credit scoring for retail portfolios, and (vi) continuous monitoring by the Risk Management Department to measure effectiveness and administer changes as required.

Credit risk mitigation. The Group uses a wide range of techniques to reduce credit risk on its lending operations managing both individual transaction loss drivers, such as probability of default, loss given default and exposure at default, and systemic risk drivers on a portfolio basis.

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

Credit exposure is a subject of active management. Procedures are in place that ensure timely recognition and prompt reaction to transactions showing signs of deterioration. Responses include reduction of the exposure, obtaining additional collateral, restructuring, or other steps, as appropriate.

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

31 Financial Risk Management (Continued)

At a portfolio level, diversification is managed to avoid excessive concentrations. Portfolio concentration limits include: (i) maximum exposure per borrower limit, (ii) industry concentration limit, (iii) loan maturity concentration limit, (iv) unsecured lending limit and (v) internal rating limit. Portfolio concentration limits are set to protect against unwanted concentration risk.

The amount of the Group's maximum exposure to credit risk is reflected in the carrying value of financial assets on the consolidated balance sheet. For issued guarantees and other credit related commitments the amount of maximum exposure to credit risk equals to the amount of commitment.

Analysis of maximum amount exposed to credit risk as at 31 December 2008 and 31 December 2007 was as follows:

In thousands of US Dollars	Note	2008	2007
Cash and cash equivalents (excluding cash on hand balances)	7	3 069 474	2 008 265
Mandatory cash balances with central banks		79 313	308 092
Debt trading securities	8	570 644	662 796
Repurchase receivables relating to debt securities	8	150 821	502 319
Due from other banks	9	1 837 436	1 916 685
Loans and advances to customers	10	17 969 661	15 330 090
Debt investments available for sale	11	317 152	8 969
Repurchase receivables relating to debt investments available for sale	11	215 070	-
Other financial assets	12	892 083	417 611
Cross guarantees	33	1 847 702	-
Guarantees issued	33	696 761	985 817
Import letters of credit	33	459 490	277 142
Total maximum amount exposed to credit risk		**28 105 607**	**22 417 786**

As at 31 December 2008 the amount of exposure to credit risk in relation to other financial assets was decreased by the margin call deposits received from banks and customers for the total amount of USD 302 804 thousand (2007: USD 80 392 thousand). Refer to Notes 15 and 16.

As at 31 December 2008 the amount of exposure to credit risk in relation to the issued import letters of credit was decreased by the collateral received from customers in the amount of USD 33 031 thousand (2007: USD 51 554 thousand). Refer to Note 16.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in equity, currency and interest rate products, all of which are exposed to general and specific market movements.

The Group manages its market risk through notional-based and risk-based limits for the Group's sub-positions. Overall Group's position is split between (i) Corporate and Retail Banking positions and (ii) Investment Banking position. The exposure of Corporate and Retail Banking operations to market risks is managed through the system of limits monitored by the Treasury Department. The exposure to the market risk of Investment Banking operations is managed through value at risk ("VaR") limits and extreme loss limits which are set for both aggregated position of Investment Banking in equities, fixed income, foreign currency and derivative instruments (treated as separate "trading desks") and for individual trading desks. Separate limits are established for the entities whose trading operations are performed through non-Moscow located trading desks. In addition, sub-limits are set for exposures to various types of securities (including both equity and debt securities) and markets and position limits for issuers and individual instruments. Limits on securities positions are approved by ALCO. Additional issuer limits on debt securities are approved separately by the relevant Credit Committees. Both the Group's proprietary and trading portfolios consist predominantly of liquid, traded securities. For content of the trading portfolio refer to Note 8. The Group's derivative operations are driven by two major factors: (i) the need of the Group to hedge its own risks, principally using foreign currency, securities and interest rate derivatives, and (ii) customer demand, principally for foreign currency, securities and commodities derivatives.

Risk-based limits are monitored on a daily basis by the Risk Management Department with respect to individual (foreign currency, equity, derivatives) trading desks. The fixed income and overall VaR of Investment Banking is monitored on a weekly basis by the Risk Management Department. The limit for the overall 1-day, 99% confidence level VaR is USD 10 000 thousand. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

31 Financial Risk Management (Continued)

During year 2008 there were the following changes in market risk management: positions were reviewed and tightened where necessary and possible; business divisions have agreed not to take large new positions during this period of market turbulence, to restrict the list of instruments traded; margin parameters were reviewed and tightened for margin trading operations.

Equity price risk. As noted above, for the purpose of quantifying the Group's equity price risks which is attributed to Investment Banking position only, the Group uses a VaR model.

Although VaR is a valuable tool in measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historical data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- One business day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- The use of a 99% confidence level does not take into account losses that may occur beyond this level. There is a one percent probability that the loss could exceed the VaR;
- As VaR is only calculated on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day; and
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market volatility declines and vice versa.

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

The major advantage of VaR risk assessment, its reliance on the empirical data, is at the same time its major drawback. Extreme market moves that may cause substantial deterioration of Group's position have to be assessed by putting a stress on the number of standard deviations of market returns. The resulting figures serve as a rough indicator of magnitude of a likely loss under the corresponding scenario. The Group uses stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions.

The daily equity price VaR measure is an estimate, with a confidence level set at 99%, of the potential loss that might arise under normal market conditions if the current positions of the Group were to be held unchanged for one business day.

According to the assessments made by the Group as at 31 December 2008 and 2007, VaR estimates in respect of equity price risk do not exceed USD 10 000 thousand. The VaR measure of the exposure of the net equity position to market price fluctuations is not material: the long balance sheet position in equity instruments disclosed within trading securities and repurchase receivables is to considerable extent covered by the opposite position in equity derivatives. By the year end the Group had significantly decreased its exposure to equity price risk. Refer to Notes 8 and 34.

31 Financial Risk Management (Continued)

Currency risk. In respect of currency risk, the Treasury Department of the Group is responsible for the centralised management of the currency risk of the Group. ALCO sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily by the Treasury Department of the Group based on the management reports provided on open currency position. The Bank uses derivatives to manage current and forecast exposures resulting from foreign currencies. The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2008:

In thousands of US Dollars	**USD**	**RR**	**EUR**	**Other currencies**	**Non-monetary**	**Total**
Assets						
Cash and cash equivalents	2 310 843	1 106 979	418 118	24 079	-	3 860 019
Mandatory cash balances with	-	26 113	49 480	3 720	-	79 313
Trading securities	286 054	100 910	153 705	29 975	17 637	588 281
Repurchase receivables relating to trading securities	36 959	113 862	-	-	-	150 821
Due from other banks	803 786	808 815	224 216	619	-	1 837 436
Loans and advances to customers	8 518 166	8 099 080	1 250 087	102 328	-	17 969 661
Investments	114 490	202 662	-	-	54 524	371 676
Repurchase receivables relating to investments	17 990	197 080				215 070
Other financial assets	790 752	252 845	147 440	3 850	-	1 194 887
Other assets	8 016	174 829	10 122	-	178 177	371 144
Premises and equipment	-	-	-	-	389 595	389 595
Deferred tax asset	-	-	-	-	24 483	24 483
Total assets	**12 887 056**	**11 083 175**	**2 253 168**	**164 571**	**664 416**	**27 052 386**
Liabilities						
Due to other banks	1 025 207	5 814 930	453 231	113 697	-	7 407 065
Customer accounts	2 983 203	5 603 534	3 866 170	130 159	-	12 583 066
Debt securities issued	1 717 574	292 685	374 507	5 784	-	2 390 550
Syndicated and other loans	795 591	268 257	-	-	-	1 063 848
Subordinated debt	463 715	-	-	-	-	463 715
Other financial liabilities	648 702	85 820	96 101	2 317	-	832 940
Other liabilities	41 970	52 045	16 173	434	-	110 622
Deferred tax liability	-	-	-	-	39 135	39 135
Total liabilities	**7 675 962**	**12 117 271**	**4 806 182**	**252 391**	**39 135**	**24 890 941**
Net balance sheet position	**5 211 094**	**(1 034 096)**	**(2 553 014)**	**(87 820)**	**625 281**	**2 161 445**
Net balance sheet position less fair value of currency derivatives	**5 016 546**	**(1 043 361)**	**(2 626 975)**	**(88 087)**	**625 281**	**1 883 404**
Derivatives (Note 34)	**(3 357 195)**	**812 607**	**2 630 108**	**192 521**	**-**	**278 041**
Net balance sheet and derivatives position as at 31 December 2008	**1 659 351**	**(230 754)**	**3 133**	**104 434**	**625 281**	**2 161 445**

31 Financial Risk Management (Continued)

The table below summaries the Group's exposure to foreign currency exchange rate risk as at 31 December 2007:

In thousands of US Dollars	USD	RR	EUR	Other currencies	Non-monetary	Total
Assets						
Cash and cash equivalents	446 998	1 788 603	358 779	39 979	-	2 634 359
Mandatory cash balances with central banks	-	239 626	59 347	9 119	-	308 092
Trading securities	164 378	442 891	50 809	4 718	178 661	841 457
Repurchase receivables relating to trading securities	216 199	279 365	6 755	-	32 107	534 426
Due from other banks	949 184	386 657	564 830	16 014	-	1 916 685
Loans and advances to customers	7 300 859	6 580 061	1 345 406	103 764	-	15 330 090
Investments	8 969	-	-	-	105 232	114 201
Other financial assets	267 770	184 266	43 789	2 178	-	498 003
Other assets	2 756	123 925	92	21	53 623	180 417
Premises and equipment	-	-	-	-	274 526	274 526
Deferred tax asset	-	-	-	-	62 304	62 304
Total assets	**9 357 113**	**10 025 394**	**2 429 807**	**175 793**	**706 453**	**22 694 560**
Liabilities						
Due to other banks	1 112 834	1 300 070	392 057	44 500	-	2 849 461
Customer accounts	1 973 373	7 234 065	2 874 785	98 169	-	12 180 392
Debt securities issued	1 842 588	838 126	498 222	-	-	3 178 936
Syndicated and other loans	1 354 090	-	-	-	-	1 354 090
Subordinated debt	526 006	-	-	-	-	526 006
Other financial liabilities	276 097	262 807	22 238	4 452	-	565 594
Other liabilities	1 527	112 834	12 537	1 647	-	128 545
Deferred tax liability	-	-	-	-	56 839	56 839
Total liabilities	**7 086 515**	**9 747 902**	**3 799 839**	**148 768**	**56 839**	**20 839 863**
Net balance sheet position	**2 270 598**	**277 492**	**(1 370 032)**	**27 025**	**649 614**	**1 854 697**
Net balance sheet position less fair value of currency derivatives	**2 233 087**	**319 082**	**(1 382 973)**	**27 560**	**649 614**	**1 846 370**
Derivatives (Note 34)	**(759 761)**	**(548 302)**	**1 325 679**	**(9 289)**	**-**	**8 327**
Net balance sheet and derivatives position as at 31 December 2007	**1 473 326**	**(229 220)**	**(57 294)**	**18 271**	**649 614**	**1 854 697**

Derivatives in each column represents the fair value, as at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The amounts by currency are presented gross as stated in Note 34. The net total represents fair value of the currency derivatives.

31 Financial Risk Management (Continued)

Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations (Note 4). For the purpose of currency risk sensitivity analysis the Group splits its assets, liabilities and notional amounts of foreign currency receivable and payable at the reporting dates into three currency zones depending on the functional currencies of the entities included in the zone:

- Russian Rouble zone (includes all Russian Federation and CIS subsidiaries);
- Euro zone (includes Amsterdam Trade Bank N.V.);
- US Dollar zone (includes all other foreign subsidiaries operating internationally).

Sensitivity analysis presented below indicates the potential effect of the change in foreign exchange market conditions on the consolidated statement of income. Risk arising out of translation of the financial statements of subsidiaries into the presentation currency of the Group is excluded from the sensitivity analysis.

As the Group's exposure to currencies other than US Dollar, Euro and Russian Rouble is not considerable in comparison to other exposures (Note 34), in performing sensitivity analysis the Groups includes its net position in other currencies into the net position in US Dollars. As at 31 December 2008 the Group's net currency position including foreign currency derivatives was as follows:

In thousands of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	1 700 475	-	232 568
Euro zone	-	(117 034)	459
US Dollar zone	(763 585)	392 904	-
Total exposure	**936 890**	**275 870**	**233 027**

As at 31 December 2008 if USD/RR, USD/EUR and EUR/RR rate changed by +/-30% respectively, this would effect the consolidated statement of income (pre-tax) of the Group in the following way:

In thousands of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+ 30% change in all foreign exchange rates	281 067	82 761	69 908
- 30% change in all foreign exchange rates	(281 067)	(82 761)	(69 908)

As at 31 December 2007 the Group's net currency position including foreign currency derivatives was as follows:

In thousands of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
Russian Rouble zone	1 167 181	-	(151 930)
Euro zone	-	1 207 211	31 987
US Dollar zone	(226 340)	61	-
Total exposure	**940 841**	**1 207 272**	**(119 943)**

At 31 December 2007 if USD/RR, USD/EUR and EUR/RR rate changed by +/-10% respectively, this would effect the consolidated statement of income (pre-tax) of the Group in the following way:

In thousands of US Dollars	**USD/RR**	**USD/EUR**	**EUR/RR**
+10% change in all foreign exchange rates	94 084	120 728	(11 994)
-10% change in all foreign exchange rates	(94 084)	(120 728)	11 994

31 Financial Risk Management (Continued)

Interest rate risk. The Group is exposed to interest rate risk, principally as a result of lending to customers and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and debt securities in issue at fixed or variable interest rates. Due to changes in interest rates, the Group's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. One of the Group's objectives is to minimize losses from unexpected negative changes in interest margins.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2008						
Total financial assets	9 524 255	6 375 319	2 779 908	7 515 521	72 161	26 267 164
Total financial liabilities	(11 728 940)	(7 639 575)	(2 647 923)	(2 724 746)	-	(24 741 184)
Less: Interest rate derivatives	1 262 236	677 838	(129 000)	(1 811 074)	-	-
Net interest sensitivity gap as at 31 December 2008	**(942 449)**	**(586 418)**	**2 985**	**2 979 701**	**72 161**	**1 525 980**
31 December 2007						
Total financial assets	8 117 382	3 905 179	2 131 739	7 706 986	316 027	22 177 313
Total financial liabilities	(12 588 635)	(4 443 207)	(1 399 296)	(2 223 341)	-	(20 654 479)
Less: Interest rate derivatives	(163 328)	182 350	17 500	(36 522)	-	-
Net interest sensitivity gap as at 31 December 2007	**(4 634 581)**	**(355 678)**	**749 943**	**5 447 123**	**316 027**	**1 510 723**

Refer to Note 34 for the information on interest rate derivatives used to manage the Group's interest rate exposure.

The Group's interest rate risk is managed by the Treasury Department within the limits set by ALCO. Such limits are monitored on a weekly basis by the Assets Liabilities Management unit of the Treasury Department. ALCO sets sensitivity limits in terms of "present value to 100 basis points interest rate shift" which measures the impact of a 100 basis points rise of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. ALCO sets such limits for the Group's Russian Rouble, US Dollar and Euro positions and for the Group's overall exposure. The Treasury Department also uses foreign exchange forwards to manage interest rate positions in different currencies and interest rate derivatives such as USD and RR interest swaps.

During 2008 interest rate risk limits have not been changed although ALCO plans to revisit the issue in the beginning of 2009, and having a quarterly review based on the changes in interest rate structure of assets and liabilities.

31 Financial Risk Management (Continued)

As at 31 December 2008, if interest rates at that date had been 300 basis points lower, with all other variables held constant, pre-tax profit for the year would have been USD 39 534 thousand (2007: USD 44 945 thousand based on 100 basis points shift) higher, mainly as a result of lower interest expense on short-term and variable rate liabilities. Other components of equity (also pre-tax) would have been USD 6 967 thousand higher, as a result of a increase in the fair value of fixed rate financial assets classified as available for sale.

If interest rates had been 300 basis points higher, with all other variables held constant, pre-tax profit for the year would have been USD 39 534 thousand (2007: USD 44 945 thousand based on 100 basis points shift) lower, mainly as a result of higher interest expense on short-term and variable rate liabilities. Other components of equity (also pre-tax) would have been USD 6 967 thousand lower, as a result of a decrease in the fair value of fixed rate financial assets classified as available for sale.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2008				2007			
In % per annum	**USD**	**RR**	**Euro**	**Other**	**USD**	**RR**	**Euro**	**Other**
Assets								
Cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Correspondent accounts and overnight placements with other banks	0.0	0.0	1.8	0.0	2.4	3.1	2.6	0.7
Mandatory cash balances with central banks	-	0.0	0.0	0.0	-	0.0	0.0	0.0
Debt trading securities	7.7	10.1	4.4	6.6	9.9	11.1	4.4	6.2
Repurchase receivables relating to trading debt securities	7.2	7.8	-	-	8.2	9.0	9.3	-
Due from other banks	0.9	20.6	1.9	1.4	5.4	5.5	4.5	5.9
Loans and advances to customers	12.3	16.8	9.9	12.4	10.7	14.6	8.8	10.7
Debt investments available for sale	8.1	6.9	-	-	2.9	-	-	-
Repurchase receivables relating to debt securities available for sale	7.5	6.2	-	-	-	-	-	-
Liabilities								
Due to other banks	5.8	10.9	5.3	2.7	5.5	6.8	4.9	2.6
Customer accounts								
- current and settlement accounts	1.4	0.8	4.3	0.0	4.1	0.1	4.9	0.8
- term deposits	7.6	10.5	6.8	8.7	7.5	6.7	4.8	6.4
Debt securities issued	7.5	10.5	6.1	12.0	7.9	7.9	7.2	-
Syndicated and other loans	4.1	6.5	-	-	6.4	-	-	-
Subordinated debt	9.0	-	-	-	9.0	-	-	-

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

31 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's assets and liabilities at 31 December 2008 is disclosed in table below:

In thousands of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	3 128 130	347 777	13 785	369 782	545	3 860 019
Mandatory cash balances with central banks	26 113	49 480	3 720	-	-	79 313
Trading securities	212 580	197 782	161 473	-	16 446	588 281
Repurchase receivables relating to trading securities	136 299	14 522	-	-	-	150 821
Due from other banks	295 924	1 405 408	46 686	89 418	-	1 837 436
Loans and advances to customers	16 582 225	555 643	816 981	12 839	1 973	17 969 661
Investments	288 589	29 187	45 470	8 430	-	371 676
Repurchase receivables relating to investments	215 070	-	-	-	-	215 070
Other financial assets	194 330	723 872	228 273	4 471	43 941	1 194 887
Other assets	359 440	11 595	44	-	65	371 144
Premises and equipment	364 320	18 640	6 631	4	-	389 595
Deferred tax asset	-	24 483	-	-	-	24 483
Total assets	**21 803 020**	**3 378 389**	**1 323 063**	**484 944**	**62 970**	**27 052 386**
Liabilities						
Due to other banks	6 360 998	810 294	186 089	15 307	34 377	7 407 065
Customer accounts	8 406 140	3 714 414	205 655	66 393	190 464	12 583 066
Debt securities issued	395 526	1 979 050	5 784	-	10 190	2 390 550
Syndicated and other loans	271 962	738 564	-	53 322	-	1 063 848
Subordinated debt	-	463 715	-	-	-	463 715
Other financial liabilities	271 491	515 952	32 022	12 402	1 073	832 940
Other liabilities	91 512	18 693	417			110 622
Deferred tax liability	39 135	-	-	-	-	39 135
Total liabilities	**15 836 764**	**8 240 682**	**429 967**	**147 424**	**236 104**	**24 890 941**
Net balance sheet position as at 31 December 2008	**5 966 256**	**(4 862 293)**	**893 096**	**337 520**	**(173 134)**	**2 161 445**

31 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2007 is disclosed in table below:

In thousands of US Dollars	Russia	Europe	CIS	USA	Other	Total
Assets						
Cash and cash equivalents	1 894 802	577 344	34 447	124 988	2 778	2 634 359
Mandatory cash balances with central banks	239 626	59 347	9 119	-	-	308 092
Trading securities	700 467	50 862	90 128	-	-	841 457
Repurchase receivables relating to trading securities	492 312	-	26 154	-	15 960	534 426
Due from other banks	402 107	1 123 869	272 841	117 868	-	1 916 685
Loans and advances to customers	13 806 135	484 230	1 020 187	19 538	-	15 330 090
Investments	105 232	-	-	8 969	-	114 201
Other financial assets	475 751	20 010	1 292	950	-	498 003
Other assets	180 417	-	-	-	-	180 417
Premises and equipment	263 263	4 681	6 582	-	-	274 526
Deferred tax asset	62 304	-	-	-	-	62 304
Total assets	**18 622 416**	**2 320 343**	**1 460 750**	**272 313**	**18 738**	**22 694 560**
Liabilities						
Due to other banks	1 591 714	1 135 454	64 031	10 374	47 888	2 849 461
Customer accounts	9 654 802	2 201 423	174 538	17 522	132 107	12 180 392
Debt securities issued	775 636	2 392 145	-	133	11 022	3 178 936
Syndicated and other loans	25 396	1 262 666	-	66 028	-	1 354 090
Subordinated debt	-	526 006	-	-	-	526 006
Other financial liabilities	466 243	86 628	911	817	10 995	565 594
Other liabilities	112 624	15 921	-	-	-	128 545
Deferred tax liability	56 839	-	-	-	-	56 839
Total liabilities	**12 683 254**	**7 620 243**	**239 480**	**94 874**	**202 012**	**20 839 863**
Net balance sheet position as at 31 December 2007	**5 939 162**	**(5 299 900)**	**1 221 270**	**177 439**	**(183 274)**	**1 854 697**

CIS represents the countries of the Commonwealth of Independent States, of which the Group's primary exposure is to the Ukraine and Kazakhstan.

The majority of credit related commitments were issued in favour of Russian counterparties and their offshore companies both as at 31 December 2008 and 2007.

Assets and liabilities have generally been allocated based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and premises, equipment and intangible assets have been allocated based on the country in which they are physically held.

Substantially all of the Group's revenues are generated from counterparties domiciled in the Russian Federation as well as most of capital expenditure of the Group relates to operations of the Group in the Russian Federation.

31 Financial Risk Management (Continued)

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

The Group seeks to maintain a stable funding base comprising primarily amounts due to corporate and retail customer deposits, debt securities in issue and due to other banks and maintain an adequate diversified portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. Alfa-Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the CBRF. These ratios are: (i) instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand; (ii) current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days; (iii) long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year.

The Treasury Department prepares the liquidity profile of the financial assets and liabilities. The Treasury Department then builds up an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

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

The Treasury Department runs liquidity forecast models on a daily basis. Different scenarios are tracked: including or disregarding projected new lending. Information on the level of delinquencies that result in late payments is regularly updated for the liquidity forecast. ALCO approved the increase of the limit for available for sale securities portfolio and liquidity cushion. The crisis liquidity scenario was reviewed to account for the higher probabilities of delays in payments on corporate and retail loans.

31 Financial Risk Management (Continued)

The table below shows liabilities as at 31 December 2008 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Net settled derivatives are included at the net amounts expected to be paid.

When the amount payable is not fixed, the amount disclosed below is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
2008					
Due to other banks	2 857 911	4 239 632	164 951	356 815	7 619 309
Customer accounts - individuals	4 648 469	829 095	546 336	262 313	6 286 213
Customer accounts - other	3 087 212	1 384 445	1 333 667	1 037 776	6 843 100
Debt securities in issue	105 638	546 193	702 956	1 362 502	2 717 289
Syndicated and other loans	463 019	9 979	315 113	371 556	1 159 667
Subordinated debt	-	19 714	19 714	529 691	569 119
Other financial liabilities	165 020	61 585	318	26 640	253 563
Derivative financial instruments					
- net settled	69 645	178 409	154 478	66 301	468 833
- inflow	(527 889)	(625 779)	(29 850)	(175)	(1 183 693)
- outflow	553 802	661 365	32 039	1 126	1 248 332
Import letters of credit	27 576	41 328	275 896	147 721	492 521
Capital commitments	-	22 554	45 108	-	67 662
Total potential future payments for financial obligations as at 31 December 2008	**11 450 403**	**7 368 520**	**3 560 726**	**4 162 266**	**26 541 915**
2007					
Due to other banks	1 817 983	356 858	173 818	567 206	2 915 865
Customer accounts - individuals	4 260 397	337 053	329 666	59 989	4 987 105
Customer accounts - other	5 098 964	1 715 417	436 259	29 791	7 280 431
Debt securities issued	149 190	777 196	714 097	2 098 832	3 739 315
Syndicated and other loans	27 001	11 787	922 998	461 542	1 423 328
Subordinated debt	-	22 656	22 656	654 480	699 792
Other financial liabilities	250 526	1 949	-	140 830	393 305
Derivative financial instruments					
-net settled	70 629	38 965	12 170	24 666	146 430
-inflow	(1 641 144)	(959 813)	(86 598)	(86 332)	(2 773 887)
-outflow	1 646 031	941 937	91 351	86 637	2 765 956
Import letters of credit	59 906	111 884	44 601	112 305	328 696
Capital commitments	-	34 156	68 311	-	102 467
Total potential future payments for financial obligations as at 31 December 2007	**11 739 483**	**3 390 045**	**2 729 329**	**4 149 946**	**22 008 803**

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

31 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Treasury Department monitors expected maturities.

The following table represents analysis of assets and liabilities as at 31 December 2008 by their expected maturities as determined by the Group. This analysis was prepared on the basis of contractual maturities except for adjustments in relation to (i) trading securities and (ii) part of customer accounts. The entire portfolio of trading securities was classified within "demand and less than 1 month" based on the Management's assessment of the portfolio's realisability. Part of current/settlement/demand accounts was reallocated from "demand and less than 1 month" category to baskets with the later maturities. On the basis of past experience the Management believes that (i) diversification of these accounts by number and type of customers and (ii) constant inflow of new deposits indicate that at least these current/demand/settlement accounts would provide a long-term and stable source of funding for the Group.

In thousands of US Dollars	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	3 860 019	-	-	-	-	3 860 019
Mandatory cash balances with central banks	79 313	-	-	-	-	79 313
Trading securities	588 281	-	-	-	-	588 281
Repurchase receivables relating to trading securities	13 363	137 458	-	-	-	150 821
Due from other banks	1 706 052	41 425	5 568	84 391	-	1 837 436
Loans and advances to customers	2 289 444	5 238 903	2 555 553	7 885 761	-	17 969 661
Investments	-	92 054	35 390	189 708	54 524	371 676
Repurchase receivables relating to investments	23 661	191 409	-	-	-	215 070
Other financial assets	388 851	511 903	194 726	99 407	-	1 194 887
Other assets	-	192 967	-	-	178 177	371 144
Premises and equipment	-	-	-	-	389 595	389 595
Deferred tax asset	-	-	-	-	24 483	24 483
Total assets	**8 948 984**	**6 406 119**	**2 791 237**	**8 259 267**	**646 779**	**27 052 386**
Liabilities						
Due to other banks	2 844 738	4 088 538	158 148	315 641	-	7 407 065
Customer accounts	3 658 413	2 497 544	1 962 799	4 464 310		12 583 066
Debt securities issued	105 365	533 247	668 694	1 083 244	-	2 390 550
Syndicated and other loans	462 306	1 422	300 126	299 994	-	1 063 848
Subordinated debt	-	19 198	18 384	426 133	-	463 715
Other financial liabilities	273 484	284 156	162 996	112 304	-	832 940
Other liabilities	11 057	71 035	973	27 557	-	110 622
Deferred tax liability	-	-	-	-	39 135	39 135
Total liabilities	**7 355 363**	**7 495 140**	**3 272 120**	**6 729 183**	**39 135**	**24 890 941**
Net expected liquidity gap as at 31 December 2008	**1 593 621**	**(1 089 021)**	**(480 883)**	**1 530 084**	**607 644**	**2 161 445**
Cumulative expected liquidity gap as at 31 December 2008	**1 593 621**	**504 600**	**23 717**	**1 553 801**	**2 161 445**	

31 Financial Risk Management (Continued)

The following table represents analysis of assets and liabilities as at 31 December 2007 by their expected maturities as determined by the Group.

In thousands of US Dollars	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	2 634 359	-	-	-	-	2 634 359
Mandatory cash balances with central banks	308 092	-	-	-	-	308 092
Trading securities	841 457	-	-	-	-	841 457
Repurchase receivables relating to trading securities	503 550	8 899	21 977	-	-	534 426
Due from other banks	1 742 978	86 654	6 573	80 480	-	1 916 685
Loans and advances to customers	1 226 517	3 566 670	2 284 635	8 252 268	-	15 330 090
Investments	-	-	-	-	114 201	114 201
Other financial assets	488 290	4 446	718	4 522	27	498 003
Other assets	23 171	103 623	-	-	53 623	180 417
Premises and equipment	-	-	-	-	274 526	274 526
Deferred tax asset	-	-	-	-	62 304	62 304
Total assets	**7 768 414**	**3 770 292**	**2 313 903**	**8 337 270**	**504 681**	**22 694 560**
Liabilities						
Due to other banks	1 813 547	355 729	171 673	508 512	-	2 849 461
Customer accounts	4 901 090	2 865 195	1 328 165	3 085 942	-	12 180 392
Debt securities issued	148 709	761 482	625 304	1 643 441	-	3 178 936
Syndicated and other loans	27 002	11 787	922 997	392 304	-	1 354 090
Subordinated debt	-	22 656	22 656	480 694	-	526 006
Other financial liabilities	345 440	40 610	14 594	164 950	-	565 594
Other liabilities	106 933	21 509	103	-	-	128 545
Deferred tax liability	-	-	-	-	56 839	56 839
Total liabilities	**7 342 721**	**4 078 968**	**3 085 492**	**6 275 843**	**56 839**	**20 839 863**
Net expected liquidity gap as at 31 December 2007	**425 693**	**(308 676)**	**(771 589)**	**2 061 427**	**447 842**	**1 854 697**
Cumulative expected liquidity gap as at 31 December 2007	**425 693**	**117 017**	**(654 572)**	**1 406 855**	**1 854 697**	

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitments because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

31 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

32 Management of Capital

The Group's main objectives when managing capital are: (i) to comply with the capital requirements set by the respective central banks, (ii) to safeguard the Group's ability to continue as a going concern, and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel I (International Convergence of Capital Management and Capital Standards dated July 1988 (as subsequently amended and updated)) of at least 8%. Capital adequacy ratio is monitored daily for compliance with the requirements set by the CBRF and monthly for other objectives of capital management.

The Group's policy of capital management is designated to maintain the capital base sufficient to keep the confidence of investors, creditors, other market participants and to secure the future development of the Group. The CBRF establishes and monitors capital adequacy limits for Alfa-Bank and OJSC Bank Severnaya Kazna. Capital adequacy limits for Amsterdam Trade Bank N.V. and JSC SB Alfa-Bank Kazakhstan are established and monitored by the central banks of Netherlands and Kazakhstan, respectively. Capital adequacy limits of Alfa Capital Holdings (Cyprus) Limited are monitored by the Cyprus Securities and Exchange Commission.

The Group plans its capital needs to be able to comply with both the central banks' requirements and Basel I with a one year horizon. The Group performs medium and long term planning of growth in the asset side considering sufficiency of capital. When necessary, the Group develops and implements measures to increase its capital base.

To ensure compliance with the capital adequacy ratios in the short run, the Group monitors use of capital by business segments. Responsibility for approval procedures and monitoring of the capital use is with the Financial Planning and Analysis Department of the Group.

The Group and Alfa-Bank are also subject to minimum capital requirements established by covenants stated in various loan agreements, including capital adequacy calculated in accordance with Basel I. The composition of the Group's capital which is managed by the Group's management and calculated in accordance with Basel I was as follows:

In thousands of US Dollars	2008	2007
Tier 1 capital		
Paid up share capital	944 800	694 800
Retained earnings, cumulative translation reserve and minority interest	1 208 355	1 103 073
Less: Goodwill	(74 838)	-
Total tier 1 capital	**2 078 317**	**1 797 873**
Tier 2 capital		
Asset revaluation reserves	8 290	56 803
Subordinated debt	243 651	381 852
Total tier 2 capital	**251 941**	**438 655**
Total capital	**2 330 258**	**2 236 528**

The Group and Alfa-Bank were in compliance with all externally imposed capital requirements as at 31 December 2008 and 2007.

33 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, other claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been recorded in these consolidated financial statements.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

The Group conducts some transactions which might be considered to be as transactions at off-market rates. Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia which contribute a significant proportion of the Group's operating results. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or overall operations of the entity.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition to the aforementioned risks, the Group estimates that as at 31 December 2008 it had other possible obligations from exposure to other than remote tax risks of up to approximately USD 4 302 thousand (2007: USD 4 724 thousand).

Refer to Note 4 for details of results of the tax audit completed during 2008.

33 Contingencies and Commitments (Continued)

Capital commitments. As at 31 December 2008 the Group had capital commitments of USD 67 662 thousand (2007: USD 102 467 thousand), of which USD 18 860 thousand (2007: USD 47 160 thousand) related to construction expenditure and modernisation of premises and USD 48 802 thousand (2007: USD 55 307 thousand) related to purchase and installation of new computer systems. Management has already allocated the necessary resources in respect of these commitments. Management believes that future income and funding will be sufficient to cover these and any similar commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

In thousands of US Dollars	2008	2007
Not later than 1 year	71 698	43 001
Later than 1 year and not later than 5 years	108 469	92 862
Later than 5 years	8 299	8 389
Total operating lease commitments	**188 466**	**144 252**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Outstanding credit related commitments were as follows:

In thousands of US Dollars	Note	2008	2007
Cross guarantees	15	1 847 702	-
Guarantees issued		696 761	985 817
Import letters of credit	16	492 521	328 696
Export letters of credit		217 059	224 573
Total credit related commitments		**3 254 043**	**1 539 086**

Cross guarantees represent guarantees provided by Alfa-Bank to the CBRF in favour of other Russian banks under a special CBR lending programme. OAO Alfa-Bank also received such guarantees for a part of its borrowings from the CBR. Refer to Note 15.

The total outstanding contractual amount of guarantees and letters of credit does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was USD 45 905 thousand as at 31 December 2008 (2007: USD 21 383 thousand).

Movements in the provision for losses on credit related commitments were as follows:

In thousands of US Dollars	Note	2008	2007
Provision for losses on credit related commitments as at 1 January		**21 383**	**11 986**
Provision for losses on credit related commitments during the year		19 357	8 112
Commitments acquired under business combinations		9 645	-
Effect of translation to presentation currency		(4 480)	1 285
Provision for losses on credit related commitments as at 31 December	**20**	**45 905**	**21 383**

33 Contingencies and Commitments (Continued)

Compliance with covenants. In accordance with agreements for attracting long-term financing the Group should comply with financial and non-financial covenants. The most significant covenants are:

- to comply with the ratios and requirements of the CBRF (for Alfa-Bank);
- to maintain a ratio of capital to risk-weighted assets as defined by Basel I;
- to maintain a minimum level of net assets;
- to maintain a minimum ratio of aggregated financial indebtedness;
- to maintain certain levels of credit ratings;
- to ensure that all related party transactions are on an arm's length basis; and
- to maintain a maximum level of long-term debt securities issued.

The Group was in compliance with these covenants as at 31 December 2008 and 2007.

Assets pledged and restricted. The Group had the following assets pledged as collateral:

In thousands of US Dollars	Notes	2008	2007
Loans and advances to customers pledged to the CBRF	10, 15	837 201	-
Loans and advances to customers pledged to the SDIA	10, 18	395 929	-
Margin call deposits	9	324 474	92 952
Investments available for sale classified as repurchase receivables	11,15	215 070	-
Trading securities classified as repurchase receivables	8, 15	150 821	534 426
Term deposits with other banks placed under the Diversified Payment Rights Secured Debt Issuance Programme	9, 17	84 197	80 480
Total		**2 007 692**	**707 858**

As at 31 December 2008 the estimated fair value of securities purchased under reverse sale and repurchase agreements (Notes 9 and 10), which the Group has the right to sell or repledge in the absence of default of the counterparty was USD 166 855 thousand (2007: USD 671 743 thousand). As at 31 December 2008 the fair value of such securities sold under sale and repurchase agreements with other banks amounted to USD 43 044 thousand (2007: USD 324 999 thousand).

Mandatory cash balances with central banks in the amount of USD 79 313 thousand (2007: USD 308 092 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

34 Derivative Financial Instruments

Derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The principal or agreed amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate contractual or principal amount of derivative financial instruments held and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

34 Derivative Financial Instruments (Continued)

The principal or agreed amounts and fair values of derivative instruments other than foreign exchange forward, swap and spot contracts are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to respective balance sheet dates.

	2008			2007		
	Principal or agreed amount	Assets	Liabilities	Principal or agreed amount	Assets	Liabilities
In thousands of US Dollars		Positive fair value	Negative fair value		Positive fair value	Negative fair value
Deliverable forwards						
Securities						
-sale of securities	330 335	101 816	(13 352)	936 911	27 129	(2 030)
-purchase of securities	353	-	(1 264)	1 119	213	-
Non-deliverable forwards						
Securities						
-sale of securities	-	-	-	23 413	-	(17 867)
Futures						
Securities						
-sale of securities	-	-	-	72 373	330	(25)
-purchase of securities	-	-	-	55 437	164	(32)
Interest rate						
-sale of interest rate futures	14 832	-	(293)	50 436	-	(481)
-purchase of interest rate futures	-	-	-	75 556	-	(444)
Call options						
Securities						
-written call options	606	-	(2)	7 920	-	(638)
-purchased call options	481	1	-	1 300	155	-
Foreign currency						
-written call options	162 000	-	(17 614)	162 000	-	(15 815)
-purchased call options	162 000	17 614	-	162 000	15 869	-
Index						
-written call options	129	-	(1)	-	-	-
Put options						
Securities						
-written put options	-	-	-	2 567	-	(124)
-purchased put options	-	-	-	3 408	384	-
	-					
Swaps						
Interest rate swaps - pay fixed interest, receive floating interest	2 495 715	152 013	(57 815)	1 055 009	1 067	(6 155)
Total return swaps on securities - pay floating interest, receive total return on securities	-	-	-	74 771	3 801	(1 431)
Credit default swap	10 000	-	(1 918)	-	-	-
Total		**271 444**	**(92 259)**		**49 112**	**(45 042)**

34 Derivative Financial Instruments (Continued)

The table below sets out fair values, as at the balance sheet date, of currencies receivable or payable under foreign exchange contracts and precious metals based contracts (excluding options) entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet dates.

	2008		2007	
In thousands of US Dollars	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Deliverable forwards				
- USD receivable on settlement	80 972	57 829	43 984	49 266
- USD payable on settlement	(988 698)	(1 191 438)	(1 401 194)	(269 645)
- EUR receivable on settlement	1 036 589	828 062	1 176 579	153 856
- EUR payable on settlement	(1 411)	(58 248)	(468)	(82 916)
- RR receivable on settlement	10 721	173 223	293 031	195 843
- RR payable on settlement	(44 758)	-	(71 177)	(52 002)
- Other currencies receivable on settlement	-	140 609	393	-
- Other currencies payable on settlement	(9 673)	-	-	(339)
Non-deliverable forwards				
- USD receivable on settlement	5 041 852	946 158	882 302	5 375 681
- USD payable on settlement	(1 857 677)	(5 351 502)	(4 310 375)	(986 172)
- EUR receivable on settlement	919 656	3 696 484	2 147 197	483 439
- EUR payable on settlement	(2 712 019)	(1 178 912)	(313 611)	(2 394 522)
- RR receivable on settlement	1 261 010	1 209 926	1 219 940	452 229
- RR payable on settlement	(1 708 611)	(88 904)	(241 752)	(2 344 414)
- Other currencies receivable on settlement	86 349	441 382	1 155 811	974 342
- Other currencies payable on settlement	(400 264)	(65 882)	(479 117)	(1 660 379)
Deliverable swaps				
- USD receivable on settlement	-	-	320 216	-
- USD payable on settlement	(94 691)	-	(320 216)	-
- EUR receivable on settlement	99 907	-	325 399	-
- EUR payable on settlement	-	-	(325 399)	-
Non-deliverable swaps				
- USD payable on settlement	-	-	(143 608)	-
- EUR receivable on settlement	-	-	156 125	-
Net fair value of foreign exchange derivatives and derivatives on precious metals	**719 254**	**(441 213)**	**114 060**	**(105 733)**

As at 31 December 2008 derivative financial instruments included currency forwards with the contractual amount of USD 1 231 000 thousand (2007: USD 1 240 000 thousand) which were designated and qualified as a hedge of the Group's net investment in subsidiaries of the Group that have Russian Rouble as a functional currency. The total amount of the effective portion of the foreign currency exchange gains recorded during 2008 on these hedging instruments amounted to USD 248 948 thousand (2007: losses of USD 74 607 thousand). No ineffectiveness was recorded in the consolidated statement of income in respect of the hedge. As at 31 December 2008 the positive fair value of these hedging instruments amounted to USD 229 091 thousand (2007: the negative fair value USD 43 927 thousand). No amounts were withdrawn from equity during the year, as there were no disposals of foreign operations.

34 Derivative Financial Instruments (Continued)

Forward, futures and swaps positions in securities as at 31 December 2008 are summarised below. As at 31 December 2008 and 2007 the majority of respective securities' long balance sheet positions of the Group exceeded the respective securities' short forward, future and swaps positions. Refer to Note 8.

	2008		2007	
	Principal or agreed amount		Principal or agreed amount	
In thousands of US Dollars	Sale	Purchase	Sale	Purchase
Corporate Eurobonds	173 039	-	157 325	-
Corporate bonds	150 748	-	564 419	19 150
Eurobonds of other states	5 513	-	15 409	-
Municipal bonds	682	-	2 970	-
Corporate shares	353	353	153 102	55 621
ADRs and GDRs	-	-	1 096	-
Russian Federation Eurobonds	-	-	66 003	1 119
US Treasury Bills	-	-	72 373	55 437
Total	**330 335**	**353**	**1 032 697**	**131 327**

The information on transactions with related parties is disclosed in Note 36.

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, repurchase receivables, investments at fair value through profit or loss and investments available for sale are carried on the consolidated balance sheet at their fair value. During 2008 total net fair value gains estimated using valuation techniques and related to investments at fair value through profit or loss amounted to USD 3 718 thousand (2007: USD 29 169 thousand).

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The estimated fair value of balances with no stated maturity is the amount repayable on demand. Refer to Notes 15 and 16 for the estimated fair values of due to other banks and customer accounts respectively. Discount rates used were consistent with the credit risk of the individual entities and ranged from 0.0% per annum to 22.0% per annum (2007: from 6.3% per annum to 10.5% per annum) depending on currency and maturity of the instrument.

Syndicated and other loans. The estimated fair value of syndicated and other loans is based on discounted cash flows using interest rates for new debts with similar remaining maturity ranging from 3.3% per annum to 12.0% per annum (2007: from 6.1% per annum to 8.6% per annum).

35 Fair Value of Financial Instruments (Continued)

Debt securities issued. The fair value of traded debt has been determined by reference to published price quotations. The fair value of the rest of the debt was estimated on the basis of discounted cash flows using interest rates for similar instruments ranging from 0.0% p.a. to 12.0% p.a.

Subordinated debt. The fair value of subordinated debt has been determined by reference to published asking quotations.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities. The fair value of derivative financial instruments is disclosed in Note 34.

Change in fair value of derivatives estimated using a valuation technique that was recognised in the consolidated statement of income resulted in a net gain for 2008 of USD 88 092 thousand (2007: net gain of USD 5 158 thousand).

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2008	2007
Due from other banks		
- Term placements	0.0 – 40.0	4.5 - 5.9
- Reverse sale and repurchase agreements	15.0 – 18.0	8.2 - 9.3
Loans and advances to customers		
- Corporate loans, finance lease receivables and advances on lease operations	6.0 - 39.3	8.1 - 23.8
- Loans to small and medium size enterprises	14.5 - 23.5	11.5 - 14.2
- Loans to individuals	10.4 - 32.7	10.9 - 43.9
Due to other banks		
-Correspondent accounts and overnight placements of other banks	0.0 - 11.9	0.0
-Term placements of other banks	0.0 - 22.0	1.0 – 12.0
-Sale and repurchase agreements with other banks	5.5 – 10.0	4.5 – 7.4
Customer accounts		
-Current/settlement accounts of corporates	0.0 - 13.5	0.3 - 8.5
-Term deposits of corporates	0.5 - 16.0	0.3 - 16.5
-Current/settlement accounts of individuals	0.0 - 7.3	3.5 - 6.5
-Term deposits of individuals	0.0 - 15.6	0.3 - 15.6
Syndicated and other loans		
- Syndicated loans	3.3 - 5.1	6.2 - 6.6
- Loan from SDIA	12.0	-
Debt securities issued (excluding quoted instruments)		
-Promissory notes and domestic bonds issued	0.0 - 12.0	0.0 – 8.0
-Notes issued under a DPR Programme	4.1 - 5.8	6.0 - 8.1
-Euro-Commercial Papers	8.2 - 9.0	6.0 - 7.2

36 Related Party Transactions

For the purposes of these consolidated financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

ABHH (Note 1) and CTF Holdings Limited and their subsidiaries constitute the Alfa Group. Banking transactions are entered into in the normal course of business with significant shareholders, directors, associated companies and companies with which the Group has significant shareholders in common, including other companies in Alfa Group and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance, corporate finance, foreign currency exchange and other transactions. Related party transactions are reflected in the tables below.

The most significant related parties of the Group are Alfa Group and TNK-BP Limited, an oil and gas company 25% owned by Alfa Group.

ABH Ukraine Group is a related party under common control of the Alfa Group.

The outstanding balances as at the end of year and income and expense items as well as other transactions for the year with related parties were as follows:

	31 December 2008				
In thousands of US Dollars	**TNK-BP**	**Alfa Group and its shareholders except for ABH Ukraine Group**	**Key management**	**Associates**	**ABH Ukraine Group**
Trading securities as at the year end	**17 322**	**17 797**	**-**	**-**	**121 190**
Investment securities available for sale as at the year end	**7 362**	**3 208**	**-**	**-**	**45 459**
Correspondent accounts with other banks as at the year end	**-**	**-**	**-**	**-**	**410**
Term placements with other banks as at the year end	**-**	**4 221**	**-**	**-**	**39 150**
RR, effective contractual rate of 10%-18%	-	4 221	-	-	-
USD, effective contractual rate of 9%-15.03%	-	-	-	-	38 656
EUR, effective contractual rate of 13%	-	-	-	-	494
Loans and advances to customers as at the year end (gross of provision for impairment)	**-**	**657 518**	**33**	**105 108**	**4 722**
RR, effective contractual rate of 11.5% - 23%	-	217 990	33	-	-
USD, effective contractual rate of 10.5% - 20%	-	439 528	-	31 907	4 722
EUR, effective contractual rate of 9.75% - 23%	-	-	-	73 201	-
Provision for loan impairment as at 1 January	**-**	**-**	**-**	**(10 961)**	**-**
Provision for loan impairment during the year	-	-	-	(94 147)	-
Provision for loan impairment as at 31 December	**-**	**-**	**-**	**(105 108)**	**-**

36 Related Party Transactions (Continued)

	31 December 2008				
In thousands of US Dollars	**TNK-BP**	**Alfa Group and its shareholders except for ABH Ukraine Group**	**Key management**	**Associates**	**ABH Ukraine Group**
Receivables as at the year end	**-**	**34 894**	**-**	**-**	**203 754**
Correspondent accounts of other banks as at the year end	**-**	**-**	**-**	**-**	**88 947**
Customer accounts					
Current/settlement accounts as at the year end	**83 880**	**191 131**	**2 518**	**102**	**3 448**
RR, effective contractual rate of 0.0% - 11.0%	57 708	76 334	328	-	-
USD, effective contractual rate of 0.0% - 2.1%	26 171	102 484	1 985	2	3 251
EUR, effective contractual rate of 0.0% - 4.1%	1	12 167	205	100	197
Other, effective contractual rate of 0.0% - 4.1%	-	146	-	-	-
Term deposits as at the year end	**7 609**	**1 164 052**	**416**	**-**	**3 417**
RR, effective contractual rate of 3.0% - 16.0%	7 609	131 294	3	-	-
USD, effective contractual rate of 3.6% - 12.0%	-	1 019 434	35	-	3 417
EUR, effective contractual rate of 6.3% - 10.3%	-	8 178	378	-	-
GBP, effective contractual rate of 5.0%	-	5 146	-	-	-
Payables as at the year end	**-**	**6 192**	**8 971**	**-**	**19 578**
Interest income for the year (based on effective contractual interest rates)	**998**	**101 321**	**4**	**3 787**	**11 700**
Interest expense for the year (based on effective contractual interest rates)	**4 628**	**50 742**	**130**	**1**	**310**
Fee and commission income for the year	**1 146**	**34 808**	**286**	**255**	**317**
Fee and commission expense for the year	**2**	**2 082**	**-**	**-**	**1**
Gains less losses arising from trading securities and derivatives for the year	**-**	**9 418**	**-**	**-**	**25 101**
Gains less losses arising from trading in foreign currencies for the year	**-**	**(2 642)**	**-**	**-**	**163 281**
Other income for the year	**122**	**63**	**32**	**-**	**2**
Other expenses for the year	**6**	**16 979**	**12 908**	**-**	**-**
Guarantees issued by the Group at the year end	**77 437**	**10 238**	**-**	**-**	**-**
Provision for losses on guarantees issued as at 1 January	**-**	**(96)**	**-**	**-**	**-**
Recovery of provision for losses on guarantees issued during the period	-	96	-	-	-
Provision for losses on guarantees issued as at 31 December	**-**	**-**	**-**	**-**	**-**
Import letters of credit as at the year end	**-**	**14 070**	**-**	**-**	**-**

36 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2007 and income and expense items as well as other transactions for the year ended 31 December 2007 with related parties were as follows:

	31 December 2007				
In thousands of US Dollars	**TNK-BP**	**Alfa Group and its sharehol-ders except for ABH Ukraine Group**	**Key manage-ment**	**Associates**	**ABH Ukraine Group**
Trading securities as at the year end	**37**	**355**	**-**	**700**	**64 199**
Correspondent accounts with other banks as at the year end	**-**	**-**	**-**	**-**	**19 003**
Term placements with other banks as at the year end	**-**	**-**	**-**	**-**	**248 789**
USD, effective contractual rate of 5.4% - 10.6%	-	-	-	-	98 318
EUR, effective contractual rate of 4.5% - 7.2%	-	-	-	-	146 902
Other currencies, effective contractual rate of 5.7% - 17.2%	-	-	-	-	3 569
Loans and advances to customers as at the year end (gross of provision for impairment)	**-**	**450 945**	**2 168**	**73 276**	**5 692**
RR, effective contractual rate of 9.9% - 15.3%	-	69 233	-	-	-
USD, effective contractual rate of 5.2% - 14.5%	-	378 969	2 168	-	5 692
EUR, effective contractual rate of 10.1%- 11.9%	-	2 743	-	73 276	-
Provision for loan impairment as at 1 January	**-**	**(2 556)**	**(70)**	**(11 366)**	**-**
Recovery of provision for loan impairment during the year	-	2 556	70	405	-
Provision for loan impairment as at 31 December	**-**	**-**	**-**	**(10 961)**	**-**
Receivables as at the year end	**9**	**18 554**	**4**	**-**	**15 197**
Correspondent accounts of other banks as at the year end	**-**	**-**	**-**	**-**	**21 885**
Customer accounts Current/settlement accounts as at the year end	**59 866**	**186 382**	**1 899**	**-**	**2 015**
RR, effective contractual rate of 0.0%	58 971	90 146	897	-	-
USD, effective contractual rate of 0.0% - 4.0%	894	93 312	903	-	2 008
EUR, effective contractual rate of 0.0% - 3.4%	1	2 924	99	-	7
Term deposits as at the year end	**43 726**	**1 586 517**	**2 759**	**-**	**-**
RR, effective contractual rate of 2.8% - 9.6%	43 726	165 536	1 246	-	-
USD, effective contractual rate of 3.6% - 6.8%	-	863 034	1 513	-	-
EUR, effective contractual rate of 3.8% - 6.8%	-	557 947	-	-	-
Payables as at the year end	**2**	**10 461**	**12 710**	**-**	**1 234**
Interest income for the year (based on effective contractual interest rates)	**1 223**	**52 451**	**68**	**6 531**	**18 926**
Interest expense for the year (based on effective contractual interest rates)	**6 661**	**70 293**	**159**	**-**	**1 489**

36 Related Party Transactions (Continued)

	31 December 2007				
In thousands of US Dollars	TNK-BP	Alfa Group and its sharehol-ders except for ABH Ukraine Group	Key manage-ment	Associates	ABH Ukraine Group
Fee and commission income	**1 973**	**20 231**	**1**	**-**	**118**
Gains less losses arising from trading securities and derivatives	**-**	**(288)**	**-**	**-**	**3 426**
Gains less losses arising from trading in foreign currencies	**-**	**(12 667)**	**-**	**-**	**4 483**
Other income for the year	**1 468**	**1 459**	**18**	**-**	**-**
Other expenses for the year	**-**	**15 319**	**19 920**	**-**	**-**
Guarantees issued by the Group	**116 247**	**2 779**	**-**	**-**	**-**
Provision for losses on credit related commitments as at 1 January	**(493)**	**(259)**	**-**	**-**	**-**
Recovery of provision for losses on credit related commitments during the year	493	163	-	-	-
Provision for losses on credit related commitments as at 31 December	**-**	**(96)**	**-**	**-**	**-**
Import letters of credit as at the year end	**-**	**25 360**	**-**	**-**	**24 817**

Key management of the Group represents members of the Board of Directors and Executive Board of the Group and Alfa-Bank. Key management compensation is presented below:

In thousands of US Dollars	2008	2007
Key management compensation accrued as at the balance sheet date	**8 971**	**12 610**
Salaries	-	-
Bonuses	**8 971**	**12 610**
- short-term bonuses	3 064	7 230
- long-term bonuses	5 907	5 380

In thousands of US Dollars	2008	2007
Key management compensation expense for the period	**12 908**	**24 303**
Salaries	8 775	7 087
Bonuses	**4 133**	**17 216**
- short-term bonuses	3 133	11 896
- long-term bonuses	1 000	5 320

Short-term bonuses represent bonuses payable immediately or shortly after they are accrued, while long-term bonuses represent bonuses payable more than 12 months after the end of the year in which the employee rendered service.

37 Business Combinations

On 28 November 2008 the Group acquired for cash 85.02% of the share capital of OJSC Bank Severnaya Kazna. In relation to the acquisition the Group received a loan from the State Deposit Insurance Agency (Note 18). The acquired subsidiary did not contribute any significant revenue or profit to the Group for the period from the date of acquisition to 31 December 2008. If the acquisition had occurred on 1 January 2008, revenue for 2008 would have been higher by USD 231 128 thousand and profit for 2008 would have been lower by USD 118 403 thousand (excluding impact of amortisation of fair value adjustments).

The consideration paid by the Group was based on a valuation of the acquiree's business taken as a whole. In accordance with IFRS 3 "Business Combinations", the Group accounted for the acquisition based on provisionally estimated fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed.

The details of the assets and liabilities acquired and goodwill arising were as follows:

In thousands of US Dollars	**IFRS carrying amount immediately before business combination**	**Attributed provisional fair value**
Cash and cash equivalents	82 387	82 387
Loans and advances to customers	835 574	818 981
Customer relationship	-	84 751
Premises and equipment	170 548	170 548
Other assets	151 643	155 363
Due to banks	(175 149)	(175 149)
Customer accounts	(869 023)	(890 211)
Other liabilities	(135 217)	(135 217)
Deferred tax liability	(2 310)	(12 448)
Fair value of net assets of subsidiary		**99 005**
Less: Minority interest		(14 831)
Fair value of acquired interest in net assets of subsidiary		**84 174**
Goodwill arising from the acquisition		101 612
Total purchase consideration		**185 786**
Less: Cash and cash equivalents of subsidiary acquired		(82 387)
Outflow of cash and cash equivalents on acquisition		**103 399**

The goodwill is primarily attributable to the profitability of the acquired business, the significant synergies and combined cost savings that are expected to arise. The fair value of assets and liabilities acquired is based on discounted cash flow models and comparable sales information.

38 Subsequent Events

On 29 January 2009 Alfa-Bank received a subordinated loan from Vnesheconombank in the amount of RR 10 201 455 thousand bearing a fixed interest rate of 8% p.a. and maturing on 25 December 2019. Among other conditions Alfa-Bank agreed (i) to obtain consent of Vnesheconombank in respect of significant transactions and (ii) to include representatives of Vnesheconombank in the management of Alfa-Bank.

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