Alfa Capital
Holdings (Cyprus) Ltd

ALFA CAPITAL HOLDINGS (CYPRUS) LTD

Disclosures in accordance with the Cyprus Securities and Exchange Commission Directive DI144-2007-05

As at 31 December 2009

General Notes:

- Alfa Capital Holdings (Cyprus) Limited (hereafter referred to as "ACC" or "the Company") and its subsidiary Alfa Capital Markets Ukraine (together known as "the Group"), have prepared the following disclosures.
- The disclosures are based on the audited financial statements of Alfa Capital Holdings (Cyprus) Ltd and the un-audited results of its subsidiary (for which consolidation is required under Directive DI144-2007-05, Chapter 2) for the year ended 31 December 2009.
- The information contained within the disclosures has been prepared for the purpose of explaining how risks are managed by the Group and to disclose the capital requirement corresponding to these risks, in line with the requirements of the Cyprus Securities and Exchange Commission. The disclosures do not constitute financial statements of the business.
- The disclosures have been reviewed by Senior Management.
- The disclosures have been verified by the Company's external auditor.
- The Group does not undertake any securitisation activity.

Table of Contents

1 Scope of Application

1.1 Policy Statement

After careful consideration, Senior Management has decided that given the size and complexity of the Group, it is not necessary to produce Pillar 3 disclosures any more frequently than annually. Furthermore, management feels that making such disclosures available on the Company's website is appropriate.

1.2 Governing Law

The information disclosed below is in accordance with Capital Requirements of Investment Firms (hereafter referred to as "the CRD" or "the Directive"), Directive DI144-2007-05, of the Cyprus Securities and Exchange Commission ("CySEC") for the focusing on Chapter 7: Disclosure and Market Discipline, of Part C, paragraphs 34 – 38 and Annex XII of Part C.

1.3 Background

ACC is a member of the Alfa Group Consortium which includes a number of companies with interests in a variety of business sectors, namely financial services, retail trade, insurance, oil and gas and telecommunications.

ACC's parent company is ABH Financial Limited which holds 80% of the Company's shares while the remaining shareholding belongs to OJSC Alfa-Bank Russia. The Company is itself a parent to a number of subsidiaries, listed in Table 1 below, which it controls both directly and indirectly, as well as Alfa Capital Markets ("ACM") which is the Company's London based branch. The branch is an extension for corporate finance advisory and underwriting services offered by the Company in the international capital markets and is regulated by the CySEC and the Financial Services Authority of the United Kingdom.

The Group's principal activities (for which consolidation is required under Directive DI144-2007-05, Chapter 2, Part A) are operations with Russian equities and debt securities and investments, investment of surplus cash into interest bearing bonds, deposits, loans and other financial instruments and the provision of financial services to international clients.

It is noted that there are no current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among ACC and its subsidiaries.

1.4 Consolidated Results

For accounting purposes ACC has taken advantage of the exemption for the non-preparation of consolidated financial statements under IAS27 – “Consolidated and Separate Financial Statements” and does not therefore consolidate any of its subsidiaries. Instead consolidated financial statements are prepared by ABH Financial Ltd.

The table below shows all of ACC’s subsidiaries. Additionally it represents the basis on which they are consolidated for both accounting and regulatory purposes. For regulatory purposes, the entity which the Company consolidates is done so on a fully consolidated basis. The Company does not perform any proportional consolidations nor does it have any subsidiaries which are deducted from capital base.

Table - consolidation for accounting and regulatory purposes

Company Name	Type	Percentage Ownership	Basis of consolidation for accounting purposes	Basis of consolidation for regulatory purposes
The New Russia Growth Fund Ltd	Investment Fund	100%	Exempt	Exempt
Alfa Capital Russia CIS Equities Holdings (Cyprus) Ltd	Holding Company	100%	Exempt	Exempt
OOO Alfa Capital Markets Ukraine	Investment Company	100%	Exempt	Fully
OOO Alfa Trust	Securities Dealing	100%	Exempt	Exempt
OOO Magazine Pashkov	Real Estate	100%	Exempt	Exempt

2 Capital Base

2.1 Regulatory Capital

The Group's regulatory capital base consists of:

- Original Own Funds (Tier 1) includes, share capital, share premium, reserves (excluding revaluation reserves), the profits and losses brought forward as a result of the application of the final profit or loss, as well as interim profits provided these profits have been verified by the external auditors. Intangible assets (computer accounting software) are deducted when deriving Original Own Funds.

The table below presents the Group's capital base as at the 31 December 2009.

Table - the Group's capital base

	Year Ended 31/12/2009
Original Own Funds	**USD'000**
Share Capital	6.017
Share Premium	173.997
Reserves	155.234
Fair value Reserves	3.311
Audited Profit for the year	67.352
Original Own Funds	**405.911**
Less: Intangible Assets	(4.540)
Total original own funds	**401.371**
Additional Own Funds	
Revaluation Reserve	-
Total Additional Own Funds	**-**
Other Deductions*	(21.484)
Total Eligible Own Funds	**379.887**

*Represents the dividend declared for the year. Numbers are presented to the nearest thousand.

3 Risk and Capital Management

3.1 Responsibility for the management of risks

Risk is an everyday part of the Group's operations and management recognise that identifying, assessing, monitoring and controlling each type of risk is important for the Group's financial stability, performance and reputation. As such, comprehensive control and governance procedures have been established to ensure the risks faced by the Group are managed carefully, so that an optimum level of risk-return trade off is achieved.

The Group has risk management systems to monitor risks. The systems are able to clearly represent positions between the Trading Book and Banking Book so that regulatory capital charges are properly measured. The systems have the necessary controls in place to generate prudent and reliable valuation estimates which are provided to senior management regularly.

Senior Management within ACC is primarily responsible for managing risks and for ensuring that ACC and its subsidiaries follow their strategic objectives. In addition to this, Risk Management support is also provided by the Risk Management department of Alfa Bank Moscow. On an ongoing basis, Senior Management, together with the Risk Manager, will:

- Evaluate the effectiveness of the policies and procedures of the Group which identify, analyse, evaluate, treat and monitor risk during the course of business, and the escalation of any violations to Senior Management.
- Assess the Group's risk appetite and risk bearing capacity.
- Ensure the Group has sufficient capital and reserves to support its risks.
- Establish prudent methodologies for setting risk limits and ensuring exposures to risk stay within these limits, as well as allocating limits where they can be used most profitably and efficiently. In the absence of approved limits, ACC and its subsidiaries do not undertake trading activity.
- Senior management also meets on a regular basis in order to assess the company's position relative to the limits set. Senior management is dynamic in the sense that it will reassess all limits set, as new information is known. It will review the current market conditions and the Group's strategy in order to set forth the business plan for the next period.

3.2 Internal Capital Adequacy Assessment Process (ICAAP)

During the year the Group prepared its ICAAP document, whereby the minimum capital requirements were determined using the Pillar 1 methodology, and subsequently the additional capital required, for those risks which are either not covered or which are partially covered by Pillar 1.

The Risk Management Department, in cooperation with the Accounting Department, were responsible for preparing the ICAAP document, whilst Senior Management had the overall responsibility of approving the ICAAP document and subsequently submitting it to the CySEC.

The process followed for the preparation of the ICAAP document consisted of the following steps:

- Identifying risks and assessing the management of those risks.
- Documenting the techniques used for the quantification of the risks identified.
- Calculating the amount of capital required for each type of risk identified.
- Determining the need for additional capital buffers to ensure the Group has enough capital over a cycle.

Through the ICAAP document it was ascertained that the Group had adequate capital to be able to cover both its Pillar 1 and Pillar 2 risks.

4 Capital Requirements

The Group follows the Standardised Approach for the measurement of Pillar 1 capital requirements for Credit and Market Risk, and the Basic Indicator Approach for the calculation of Operational Risk. The capital deemed necessary for the Group as at 31 December 2009 is shown in the table below:

Table – Pillar 1 Capital requirements for Credit, Market and Operational Risk as at 31 December 2009

	Pillar 1 Capital Requirement
	USD'000
Credit and Counterparty Credit Risk*	46.576
Market Risk	32.896
Operational Risk	9.626
Total	**89.098**

*Inclusive of capital requirements for settlement risk. Numbers are represented to the nearest thousand.

5 Credit and Counterparty Credit Risk

5.1 Definition

Credit risk is the risk that a counterparty may potentially fail to meet their obligations when they become due. The Group takes an exposure to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Group identifies and monitors Counterparty Credit Risk and Geographical Risk as part of Credit Risk,

5.2 Management of Credit and Counterparty Credit Risk

The management of Credit Risk, including Counterparty Credit Risk is the primary responsibility of the Risk Management Department, with Senior Management assuming a supervisory role in the process. The Risk Management Department together with Senior Management are responsible for establishing policies and procedures which identify, analyse, evaluate, treat and monitor risk during the course of business. Management is also responsible for the establishment of limits on the amount of risk accepted in relation to one borrower, or groups of borrowers and to industry sectors.

The exposures 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. Actual exposures against limits are monitored daily.

The Risk Management Department frequently prepares management reporting information which is sent to the Company's Senior Management. The Senior Management, in close cooperation with the Risk Management Department, consistently review the information reported, taking corrective actions to mitigate risk if and when necessary.

5.3 Credit Risk Mitigation

The Group has established a number of methodologies and techniques, for managing and monitoring Credit Risk and Counterparty Credit Risk. The methodologies are reviewed annually by the Risk Management Department of the Group and are also updated as and when necessary.

The use of a Credit Assessment framework helps the Risk Management Department mitigate such risks by analysing a client's or counterparty's credit quality based on analysis of financial and non-financial information. In addition to this, the Risk Management Department also monitors counterparty ratings issued by External Credit Rating Institutions (where available), both prior to entering into transactions and throughout the life of a transaction in order to monitor risk and set appropriate limits.

The use of limits for managing Credit Risk and Counterparty Credit Risk helps manage the Group's exposure to Credit Risk and Counterparty Credit Risk. Counterparty exposure limits are also set for each counterparty type collectively. Utilisation of limits takes the market value of each transaction as well as any potential future fluctuations.

The Group has established a number of other measures, to mitigate Settlement Risk and indirectly Counterparty Risk. Such measures include performing transactions only on a Delivery Versus Payment ("DVP") settlement basis, or requesting pre-payments or pre-deliveries from clients and counterparties. The Group also performs secured transactions, which are backed by secured loans and collateral.

5.4 Credit Risk Measurement

For calculating its risk weighted exposures for Credit Risk and Counterparty Credit Risk, the Group has decided to follow the Standardised Approach. Using the Standardised Approach, when calculating the capital requirements for Credit Risk for both on-balance sheet and off-balance sheet positions, the Group assigns risk weights to its exposures, based on their exposure type.

Under the Standardised Approach, the Group's minimum capital requirements with respect to Credit Risk are as follows:

Table – Summary of Capital Requirements with respect to Credit Risk by Asset Class in USD'000

Asset Class	Value of Exposure before credit risk mitigation	Provisions	Average Exposures
Sovereigns	217	0	26.827
Institutions	240.104	0	287.898
Corporates	494.475	0	602.891
Others	719	0	620
Total Exposures	735.515	**0**	918.236

Numbers are represented to the nearest thousand.

Counterparty Credit Risk

As previously mentioned Counterparty Credit Risk is currently managed under Credit Risk. As such continuous monitoring of Counterparty Credit Risk is carried out; this extends to the monitoring of wrong-way risk as well as the monitoring and establishment of adequate credit reserves.

Measurement of Counterparty Credit Risk

The Group has adopted the Mark-to-Market ("MTM") method to calculate the value of exposures, which gives rise to Counterparty Credit Risk. The MTM method followed is described in the steps below:

- Step (a): by attaching current market values to contracts, the current replacement cost of all contracts with positive values is obtained.
- Step (b): to obtain a figure for potential future credit exposure, the notional principal amounts or underlying values are multiplied by the percentages in Table 1 of Directive DI144-2007-05, Part C, Annex III, Part 3.
- Step (c): the sum of current replacement cost and potential future credit exposure is the exposure value.

The gross positive fair value of contracts, netting benefits, netted current credit exposures, collateral held and net derivatives credit exposure is summarised within the table below:

Table – Counterparty Credit Risk table

Type of Derivative	Gross positive fair value of contracts	Netting benefits	Netted credit exposure	Collateral held	Net derivatives credit exposure
	USD'000	USD'000	USD'000	USD'000	USD'000
Deliverable forwards	6.534	0	6.534	0	6.534
Non-deliverable forwards	5.017	0	5.017	0	5.017
Swaps	284.014	0	284.014	0	284.014
Currency Derivatives	32.721	0	32.721	0	32.721

Numbers are represented to the nearest thousand.

5.5 Value of Exposures

The Group's financial statements have been prepared in accordance with the 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 available for sale financial assets, financial instruments categorised as at fair value through profit or loss and all derivative contracts.

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. 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 instruments 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 Group becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation technique to determine the fair value of currency swaps that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the currency swaps.

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. 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.

5.6 Past due and Impaired

Impairment of financial assets carried at amortised cost: Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss 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. The primary factors that the Company 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:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Company obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there are significant changes in the borrower's management structure which can cause late payment of absence of same;
- there is 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;

- third party actions: legal and/or tax claims against borrower (pledger, underwriter), arrest or seizure of the borrower's (pledger's, underwriter's) property including property pledged with the Group;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

As per IFRS7 Appendix A 'Defined terms': A financial asset is past due when a counterparty has failed to make a payment when contractually due. It is noted that during the year there were no past due and impaired balances within other financial assets or within investments available for sale. It should also be noted that during the year the Company did not make any provisions.

5.7 Exposures by Geographical locations

	CIS	Europe	Other	Russia	Grand Total
Asset Class	**USD'000**				
Sovereigns	5	212	0	0	217
Institutions	807	190.770	0	48.527	240.104
Corporates	1.264	404.334	84.675	4.202	494.475
Other	0	719	0	0	719
Grand Total	**2.076**	**596.035**	**84.675**	**52.729**	**735.515**

Numbers are represented to the nearest thousand.

5.8 Exposures by residual maturity

	<1 month	1-6 months	6-12 months	>1 year	Grand Total
Asset Class	**USD'000**				
Sovereigns	217	0	0	0	217
Institutions	33.384	181.701	18.737	6.282	240.104
Corporates	458.583	15.234	8.600	12.058	494.475
Other	0	0	0	719	719
Grand Total	**492.184**	**196.935**	**27.337**	**19.059**	**735.515**

Numbers are represented to the nearest thousand.

5.9 Exposures by significant industry

	Banking	Finance	Other	Grand Total
Asset Class	**USD'000**			
Sovereigns	0	0	217	217
Institutions	56.671	1.732	181.701	240.104
Corporates	2.952	378.429	113.094	494.475
Other	0	0	719	719
Grand Total	**59.623**	**380.161**	**295.731**	**735.515**

Numbers are represented to the nearest thousand.

5.10 Nominated External Credit Assessment Institutions (ECAIs) for the application of the Standardised Approach

The Group has chosen to use Fitch Ratings for all asset classes under the Standardised Approach. The use of Fitch Ratings is in compliance with the requirements of the Directive, and is used consistently for all exposures in a specific asset class. Where there is no rating from the specific institution, the ratings of Moody's Investor Services are used, and then those of Standard and Poor's Rating Services. The Group will continue to use the same approach for its entire portfolio unless there are material differences in the way it performs its business.

	Credit Quality Step					
	USD'000					
	1	**2**	**3**	**4**	**5**	**6**
Sovereigns	217	0	0	0	0	0
Institutions	190.683	0	49.421	0	0	0
Corporates	750	0	493.725	0	0	0
Other	0	0	719	0	0	0

Numbers are represented to the nearest thousand.

6 Market Risk

6.1 Definition

Market Risk is defined as the risk of financial loss as a result of changes in market factors which reduce the Market Value ("MV") of the trade portfolio financial instruments as well as foreign currency. The Group's Market Risk arises from open positions in currency, price and interest rate risk. For this reason, as part of Market Risk, the Group manages these risks. In addition the Market Risk department also manages liquidity risk.

6.2 Management of Market Risk

Senior management and Risk Management are responsible for:

- Establishing prudent methodologies for setting limits for either Market Risk or Credit Risk to control the exposures of the Company.
- Reviewing all limits at least annually.
- Allocating limits where they can be used most profitably and efficiently.
- Maintaining high standards of Counterparty Credit and Market Price Risk tools analysis.
- Establishing a limits framework for every trading business, setting out among other, which products they are permitted to use, maximum exposures limits and which activities they are permitted to engage in.
- Performing Value at Risk (VaR) and stress testing calculations, two commonly used tools in finance for quantitative risks. This allows management to closely manage the business by ascertaining maximum losses (with given probabilities) as well as the robustness of the business in stress situations.

In the absence of approved limits, trading activity is not undertaken nor are any new products used.

The Risk Management Department frequently prepares management reporting information which is sent to the Company's Senior Management. The Senior Management, in close cooperation with the Risk Management Department, consistently review the information reported, taking corrective actions to mitigate risk if and when necessary.

6.3 Market Risk Management – Trading Book

Market Risk is carefully managed through detailed policies and procedures. Senior Management will undertake an annual review of limits, based on discussions and recommendations received by the Risk Management Department. For any proposed changes in limits, the existing limits should be submitted, as well as the new limit proposals. Reasons for any changes or amendments should be explained.

The Risk Management Department monitors all trading positions on a daily basis to ensure that all quantitative limits are adhered to. The following limits for mitigating risks have been established and it is worth noting that the list below illustrates all the possible risk measures that the Group may apply. Depending on market conditions limits may be revised, and increased limit restrictions upon changes in market conditions may be applied.

- **Foreign Exchange Risk:**
    - *Net open position against local currency* - This is the net long or short foreign currency position.
    - *Total Net Short Position* - This is the net short position of all currencies.
    - *Net Open position by currency* - This is the net market value of positions in each currency, expressed in the local currency.
    - *Maximum Maturity* - Maximum Maturity of the transaction calculated from deal date.
    - *Counterparty Limits* - Utilization of exposures for counterparty limits take into account the market value of the transaction.
    - *FX Settlement Limits* - This limit captures the settlement risk of FX transactions. It is set in order to control the exposure to a particular counterparty.

- **Market Risk arising from Bond Securities, Bond Futures, Interest Rate Futures, Interest Rate Swaps, Credit Default Swaps:**
    - *Position Limits* - This is the maximum allowable exposure for each specific instrument within a specific portfolio. Different limits may be set for intra-day and overnight positions.
    - *Maximum Holding Period Limit* - The maximum period the trader can hold a position.
    - *Maximum Maturity* - Maximum Maturity of the transaction calculated from deal date.
    - *Counterparty Exposure Limits* - Limits are set for each counterparty collectively. Utilization of exposures takes into account the market value of the deal, as well as the future fluctuation in its value.

- **Market Risk arising from equity positions:**
    - *Position Limits* - Maximum exposure can be set for a particular portfolio.
    - *Value at Risk (VAR) 1 day 99% confidence level* - This is a category of risk metrics that describe probabilistically the market risk of a trading portfolio.

6.4 Market Risk Management – Banking Book

Equity Price Risk of the Banking Book is managed by establishing limits, and by closely monitoring and controlling adherence to these limits. Detailed policies and procedures exist which are reviewed and updated frequently.

Foreign Exchange Risk is managed on a consolidated basis for both the banking book and the trading book positions using the methods already mentioned above.

6.5 Interest Rate Risk in the Banking Book

Interest Rate Risk is defined by the Company as the risk that movements in interest rates will have an adverse effect on the Company's income or the value of its portfolios of financial instruments. Despite the fact that the Company does not have significant long term interest bearing assets, the management of the Group closely monitors interest rate fluctuations on a continuous basis, and frequently performs a detailed analysis of the Group's asset and liability structure by re-pricing date. Interest Rate Risk is also monitored by measuring the sensitivity of net interest income over a 12 month period, to changes in the interest rate levels; indeed sensitivity tests most commonly measure the effect on net interest income and economic value. The Group's management has so far carried out a net interest sensitivity analysis/gap analysis, by shocking interest rates by +/-100bps. The results are summarised in the table below:

Table - Net Interest Sensitivity analysis*

Shock Scenario	Variation in earnings
- 100bp	**- 444**
+100bp	**+ 444**

** It should be noted that the Net Interest Sensitivity analysis contained within this table is only representative of the Company's figures given that the exposure its subsidiary has to Interest Rate Risk is immaterial. It is also noted that the variation in earnings represents an increase or decrease on the pre-tax profit figure.* Numbers are represented to the nearest thousand.

6.6 Market Risk Measurement

The minimum capital requirement with respect to Market Risk is calculated using the Standardised Approach. Under the standardised approach the Market Risk capital requirements are calculated with respect to position risk and Foreign Exchange Risk. As at 31 December 2009, the consolidated capital requirements are as follows:

Table – Capital requirements

Market Risk			
Position Risk		**USD'000**	**USD'000**
Traded Debt Instruments			
	Specific Risk	2.631	
	General Risk	498	**3.129**
Equity Risk			
	Specific Risk	1.869	
	General Risk	3.737	**5.606**
Foreign Exchange Risk			**18.519**
Capital Requirement for Trading Book Exposures			**5.643**
Total Market Risk Capital Requirement			**32.897**

Numbers are represented to the nearest thousand.

6.7 Exposures in equity securities not included in the Trading Book

Under this category the Company includes equity investments which are Investments in Group Companies (subsidiaries or other), investments in associates and financial instruments bought which are classified under investments available for sale.

Investments in Group Companies

During the year 2009, the Company had the following investments in companies within the Alfa Bank Group.

	31 December 2009	**31 December 2008**
Group Companies	USD'000	USD'000
OJSC Alfa –Bank (Russian Federation, 0.17%)	27.944	27.944
Alfa Capital LLC (Ukraine, 100.00%)	3.000	3.000
Alfa-Trust AO (Russia Federation, 100.00%)	1.405	1.405
Other	5	20
Impairments	(25.308)	(25.308)
Total Investments	**7.046**	**7.061**

Numbers are represented to the nearest thousand.

The figures quoted above are carried at their cost of investment less impairment.

Investments in Associates

As at 31 December 2009, the Group does not have investments in associated companies.

Investments Available for Sale

This classification includes investment securities which the Company 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 Company classifies investments as available for sale at the time of purchase.

Investment securities 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 profit or loss 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 gains or loss is removed from equity to profit or loss.

As at 31 December 2009 the Company's principal investments available for sale were represented by participating shares in investment funds domiciled in Russian and the Cayman Islands. Specifically the movement in the investments available for sale were as follows:

	2009	**2008**
	USD'000	USD'000
Carrying Value as at 1 January	7.661	14.089
Acquisitions of investments available for sale	-	6.426
Proceeds from disposal of investments available for sale	(3.696)	(3.553)
Gains less losses arising from investments available for sale	(218)	1.659
Impairments of investments available for sale	-	(6.775)
Movement in fair value reserves for investments available for sale	3.311	(4.185)
Total Investments available for sale as at 31 December	**7.058**	**7.661**

Numbers are represented to the nearest thousand.

7 Operational Risk

7.1 Introduction

Operational Risk is defined as the risk of direct and indirect loss resulting from inadequate or failed processes, people and systems from external events. For the purpose of managing Operational Risk, the following risks are also managed:

- Business Process risks
- Technological risks
- Personnel risks
- Risks of unforeseen situations and external events

7.2 Management of Operational Risk

Operational Risk is inherent to all of the Group's operations. The Group's Senior Management and its Risk Management department successfully manage and control Operational Risk by identifying, measuring, monitoring reporting, controlling and mitigating Operational Risks. Specifically, the Risk Management department is responsible for:

- Establishing an Operational Risk policy which outlines the Company's approach to operational risk management, determines the main directions of the Operational Risk management and identifies the responsibilities between the Company's departments in relation to Operational Risk management.
- Establishing procedures for Operational Risk and Operational loss data reporting.
- Encouraging a culture where Operational Risk is identified, monitored and controlled by all of the Group's employees.

The Risk Management department frequently prepares management reporting information which is sent to the Company's Senior Management. The Senior Management, in close cooperation with the Risk Management department, consistently review the information reported, taking corrective actions to mitigate risk if and when necessary.

7.3 Assessment of Operational Risk

The Company adopts the Basic Indicator Approach ("BIA") to Operational Risk, the relevant indicator being the three year average of the sum of net income. The three year average is calculated on the basis of the last three twelve-monthly observations at the end of the financial year. Under the BIA, capital is held to support Operational Risk for the business at the rate of 15%.

Table – Operational Risk

Operational Risk	Average Sum of Net Income	Capital Requirement
	USD '000	USD'000
Alfa Capital Holdings (Cyprus) Limited	62.333	9.350
Alfa Capital Ukraine	1.838	276
Total	**64.171**	**9.626**

Numbers are represented to the nearest thousand.