

Alfa Capital Holdings (Cyprus) Limited
Report and Financial Statements

31 December 2010

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Board of Directors and other officers

Board of Directors

Pavel Nazariyan
Andriy Glavatsky
Constantinos Constantinou
Simon Roache
Yiola Stavraki
Demetris Pijiolis (appointed 10 December 2010)
Denis Soloviev (appointed 10 December 2010)
Dmitry Serezhin (appointed 10 December 2010)

Company Secretary

Abacus Secretarial Limited
Elenion Building, 2nd floor
5 Themistocles Dervis Street
CY-1066 Nicosia
Cyprus

Registered office

Elenion Building, 2nd floor
5 Themistocles Dervis Street
CY-1066 Nicosia
Cyprus

Report of the Board of Directors

1 The Board of Directors presents its report together with the audited financial statements of the Company for the year ended 31 December 2010.

Principal activities

2 The Company's principal activities are operations with equity and debt securities and investments, investment of surplus cash into interest earning bonds, deposits, loans and other financial instruments and the provision of financial services to international clients and the Group. In addition, the Company owns and maintains accounting software used by Open Joint Stock Company Alfa-Bank ("Alfa-Bank"). The Company is regulated by the Cyprus Securities Exchange Commission (CySEC). The Company holds a license from CySEC to engage principally in brokerage activities and proprietary trading. The license entitles the Company to operate both locally and outside Cyprus.

Review of developments, position and performance of the Company's business

3 The Company made a profit in 2010 of USD 86 298 thousand (2009: USD 68 446 thousand). The increase in profitability was mainly due to increase in net interest income amounting to USD 19 903 thousand for the year 2010 comparing to net interest income of USD 403 thousand in the year 2009 and increase in other income amounting to USD 329 358 thousand in the year 2010. The increase in net interest income and other income was partially moderated by losses from interest based derivatives of USD 222 013 thousand in the year 2010 comparing to the gains of USD 53 816 thousand in the year 2009 and by losses from trading in foreign currencies of USD 17 679 thousand in the year 2010 comparing to gains of USD 63 486 thousand in the year 2009. The financial position, development and performance of the Company as presented in these financial statements are considered satisfactory.

Principal risks and uncertainties

4 The principal risks and uncertainties faced by the Company are disclosed in notes 4 and 22 to the financial statements.

Future developments

5 The Board of Directors does not expect any significant changes or developments in the operations of the Company in the foreseeable future. However, the recent global financial crisis has had a severe effect on the economy and the financial situation significantly deteriorated since mid-2008. Although, in 2010 the economy experienced a moderate recovery of economic growth, some consequences of global financial crisis can still adversely impact the Company's financial position and performance. The Board of Directors is unable to predict developments which could have an impact on the economy and consequently what effect, if any, they could have on the financial position of the Company, but believes it is taking all the necessary measures to support the sustainability and growth of the Company's business in the current circumstances.

Results

6 The Company's results for the year are set out on page 7. The Board of Directors recommends the payment of a dividend as detailed below.

Dividends

7 During the year 2010 the Company declared dividends in the amount of USD 85 000 thousand out of the years 2008 and 2009 profits.

Share capital

8 There were no changes in the share capital of the Company.

Report of the Board of Directors (continued)

Board of Directors

9 The members of the Board of Directors at 31 December 2010 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2010, except Mr Demetris Pijiolis, Mr Denis Soloviev and Mr Dmitry Serezhin who were appointed as Directors on 10 December 2010.

10 In accordance with the Company's Articles of Association Ms Yiola Stavraki retires and, being eligible, offers herself for re-election.

11 There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the balance sheet date

12 There were no material events which occurred after the end of the financial year.

Branches

13 In 2005 the Company opened a branch in London, United Kingdom, named Alfa Capital Markets. The branch is an extension for corporate finance advisory and underwriting services offered by the Company in the international capital markets.

Independent Auditors

14 The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

Abacus Secretarial Limited
Secretary

Nicosia, 28 April 2011



Independent auditor's report To the Members of Alfa Capital Holdings (Cyprus) Limited

Report on the financial statements

We have audited the accompanying parent company financial statements of Alfa Capital Holdings (Cyprus) Limited (the "Company"), which comprise the statement of financial position as at 31 December 2010, and the 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 information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113, and for such internal control as the Board of Directors 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

Our responsibility is to express an opinion on these 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.

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 of financial statements that give a true and fair view 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 the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the parent company financial statements give a true and fair view of the financial position of Alfa Capital Holdings (Cyprus) Limited as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap 113.



Report on other legal and regulatory requirements

Pursuant to the requirements of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Law of 2009 on Statutory Audits of Annual and Consolidated Accounts and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Christos Tsolakis
Certified Public Accountant and Registered Auditor
for and behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Nicosia, 28 April 2011

Alfa Capital Holdings (Cyprus) Limited
Statement of Financial Position

<i>In thousands of US Dollars</i>	Note*	31 December 2010	31 December 2009
Assets			
Cash and cash equivalents	7	146 120	154 659
Trading securities	8	151 999	83 177
Repurchase receivables relating to trading securities	8	512 365	-
Due from banks	9	251 243	72 051
Loans and advances to customers	10	53 667	6 881
Investments available for sale	11	1 712	7 058
Investments in companies within the Group	11	5 656	7 046
Other financial assets	12	309 410	486 214
Intangible assets, equipment and leasehold improvements	13	2 333	5 022
Taxes prepaid		658	212
Total assets		1 435 163	822 320
Liabilities			
Due to banks	14	541 915	6 098
Funding from companies within the Group		129 218	100 511
Other financial liabilities	15	378 671	328 264
Other liabilities		-	133
Current tax liabilities		1 583	1 795
Total liabilities		1 051 387	436 801
Equity			
Share capital	16	6 017	6 017
Share premium	16	173 997	173 997
Fair value reserve for investments available for sale	11	270	3 311
Retained earnings		203 492	202 194
Total equity		383 776	385 519
Total liabilities and equity		1 435 163	822 320

Approved for issue and signed on behalf of the Board of Directors on 28 April 2011.

Andriy Glavatsky
Director

Pavel Nazariyan
Director

*Refer to Note 26 for information on related party transactions.

Alfa Capital Holdings (Cyprus) Limited
Statement of Comprehensive Income

<i>In thousands of US Dollars</i>	Note*	2010	2009
Interest income	17	32 577	13 520
Interest expense	17	(12 674)	(13 117)
Net interest income		19 903	403
Fee and commission income	18	2 726	4 466
Fee and commission expense	18	(7 140)	(6 615)
Gains less losses arising from trading securities		(1 269)	(40 894)
Gains less losses arising from foreign currencies		(17 679)	63 486
Gains less losses arising from interest based derivatives		(222 013)	53 816
Foreign exchange translation gains less losses		(6 107)	3 385
Gains less losses arising from investments available for sale	11	3 311	(218)
Other operating income	19	329 358	2 926
Operating expenses	20	(11 707)	(12 187)
Impairment of other financial assets	12	(2 868)	-
Profit before tax		86 515	68 568
Income tax charge	21	(217)	(122)
Profit for the year		86 298	68 446
Other comprehensive income:			
Gains less losses during the year on available for sale investments	11	270	3 311
Reclassification adjustment for gains included in profit or loss	11	(3 311)	-
Other comprehensive (loss) / income for the year		(3 041)	3 311
Total comprehensive income for the year		83 257	71 757

*Refer to Note 26 for information on related party transactions.

Alfa Capital Holdings (Cyprus) Limited
Statement of Cash Flows

<i>In thousands of US Dollars</i>	Note	2010	2009
Cash flows from operating activities			
Interest received		26 491	12 886
Interest paid		(8 483)	(13 106)
Fees and commissions received		2 726	4 466
Fees and commissions paid		(6 922)	(6 615)
Net income received from trading securities		(9 134)	20 201
Net income received from trading in foreign currencies		(7 228)	305 347
Net income received from interest based derivatives		39 180	45 018
Other operating income received		1 002	163
Operating expenses paid		(8 821)	(8 814)
Income tax paid		(875)	-
Cash flows from operating activities before changes in operating assets and liabilities		27 936	359 546
Changes in operating assets and liabilities			
Net (increase) in trading securities and repurchase receivables relating to trading securities		(514 397)	(8 323)
Net (increase)/decrease in due from banks		(178 681)	88 481
Net (increase) in loans and advances to customers		(46 821)	(6 148)
Net (increase) in other financial assets		(19 676)	(93 848)
Net increase/(decrease) in due to banks		535 414	(143 243)
Net increase/(decrease) in funding from companies within the Group		24 954	(49 500)
Net increase/(decrease) in other financial liabilities and other liabilities		158 399	(57 716)
Net cash (used in)/from operating activities		(12 872)	89 249
Cash flows from investing activities			
Proceeds from disposal of investments available for sale	11	5 060	3 696
Proceeds from disposal of investments in companies within the Group	11	1 300	15
Acquisition of intangible assets, equipment and leasehold improvements	13	(107)	(306)
Dividends received		-	763
Net cash flows from investing activities		6 253	4 168
Net cash from financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(6 619)	93 417
Cash and cash equivalents at the beginning of the year	7	154 659	61 808
Effect of exchange rate changes on cash and cash equivalents		(1 920)	(566)
Cash and cash equivalents at the end of the year		146 120	154 659

Refer to Notes 12 and 15 for the information on significant non-cash transactions during 2010 year.

Alfa Capital Holdings (Cyprus) Limited
Statement of Changes in Equity

	Note	Share Capital	Share Premium	Fair value reserve for investments available for sale	Retained earnings (1)	Total equity
<i>In thousands of US Dollars</i>						
Balance as at 1 January 2009		6 017	173 997	-	155 232	335 246
Total comprehensive income for the year		-	-	3 311	68 446	71 757
Dividends	16	-	-	-	(21 484)	(21 484)
Balance as at 31 December 2009		6 017	173 997	3 311	202 194	385 519
Total comprehensive income for the year		-	-	(3 041)	86 298	83 257
Dividends	16	-	-	-	(85 000)	(85 000)
Balance as at 31 December 2010		6 017	173 997	270	203 492	383 776

(1) Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

1 Introduction

Alfa Capital Holdings (Cyprus) Limited (the “Company”) was incorporated in Cyprus on 23 April 1996, when it was assigned a registration number 78416, under the provisions of the Cyprus Company Law, Cap. 113. The Company is a subsidiary of Alfa Banking Group. Alfa Banking Group is formed by ABH Financial Limited (the “Parent”) and its subsidiaries (the Group).

As at 31 December the ownership structure of the Company was as follows:

	<u>2010</u>	<u>2009</u>
ABH Financial Limited	30.3%	30.3%
Trimix Limited (Cyprus)	19.9%	24.9%
Yanyx Limited (Cyprus)	19.9%	24.9%
OJSC Alfa-Bank (“Alfa Bank”)	29.9%	19.9%
Total	<u>100%</u>	<u>100%</u>

The Parent prior to 4 April 2011 was registered in the British Virgin Islands and since 4 April 2011 is registered in Cyprus. The Parent 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 Luxemburg 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 Company’s principal activities are operations with equity and debt securities and investments, investment of surplus cash into interest earning bonds, deposits, loans and other financial instruments and the provision of financial services to international clients and the Group. In addition, the Company owns and maintains accounting software used by Open Joint Stock Company Alfa-Bank (“Alfa-Bank”), a subsidiary of the Group. The Company is regulated by the Cyprus Securities Exchange Commission (CySEC). The Company holds a license from CySEC to engage principally in brokerage activities and proprietary trading. The license entitles the Company to operate both locally and outside Cyprus. In compliance with CySEC requirements aimed to improve market discipline the Company will publish the disclosures as described in the Directive DI144-2007-05 on the Company’s website (www.alfacapital.com.cy).

The Company is registered at Elenion Building, 2nd floor, 5 Themistocles Dervis Street, CY-1066, Nicosia, Cyprus.

The Company has a branch in London, United Kingdom, named Alfa Capital Markets. 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 Financial Services Authority of United Kingdom and CySEC. The branch is registered at 14th Floor, 1 Angel Court, EC2R 7HJ, London, United Kingdom.

2 Operating Environment of the Company

The Company, 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 severe 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.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. 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 financial institution operating in the Russian Federation.

2 Operating Environment of the Company (continued)

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 wider economy and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business.

3 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113 under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of 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 financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements have been prepared and presented in thousand of United States Dollars ("US Dollars" or "USD") as the functional currency of the Company.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Separate financial statements. These financial statements are separate financial statements in which the Company's investments in subsidiaries and associated companies are accounted for at cost less provision for impairment and income from such investments is recorded only to the extent of distributions from the investees when the Company's right to receive such distributions is established. Subsidiaries are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. The Company took advantage of the exemption for the non-preparation of consolidated financial statements under IAS 27 "Consolidated and Separate Financial Statements". Consolidated financial statements are prepared by ABH Financial Limited and can be reviewed on the webpage: http://alfabank.com/investor/financial_reports/financial_statements_ifrs.

Financial Instruments - Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortized 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 Company 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 Company 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 Basis of Preparation and 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 these 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 amortization 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 of 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.

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 Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Company 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.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short-term placements with banks, beyond overnight placements, are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Trading securities. Trading securities are securities which are either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Company classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within a one to three month period. Trading securities are not reclassified out of this category even when the Company’s intentions subsequently change.

3 Basis of Preparation and 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 statement of income as interest income. Dividends are included in dividend income when the Company'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 as gains less losses from operations with trading securities in the period in which they arise.

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. Securities sold under such sale and repurchase agreements are not derecognised. 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. The corresponding liability is presented within amounts due to banks.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Company are recorded as due from other banks or loans and advances to customers, as appropriate. 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 lent to counterparties for a fixed fee are retained in the 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 for a fixed fee are not recorded in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains or losses from operations with trading securities. The obligation to return the securities is recorded at fair value in other financial liabilities.

Due from banks. Amounts due from banks are recorded when the Company advances money to 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.

Receivables. Receivables represent the major component of other financial assets and consist of receivables for sale of securities, advances made for purchases of securities and other receivables and advances. Receivables are carried at amortised cost.

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. If the Company 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 with similar credit risk characteristics and collectively assesses them for impairment. 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 or 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 the borrower (guarantor, underwriter), arrest or seizure of the borrower's (guarantor's, underwriter's) property including property pledged with the Company;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

3 Basis of Preparation and Significant Accounting Policies (Continued)

For the purposes of a collective evaluation of impairment, 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 the 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 the terms of an impaired financial asset held at amortized 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.

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.

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.

Financial assets – reclassification. The Company may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial 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 the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Company may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available for sale categories if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held to maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Investments at fair value through profit or loss. Investments at fair value through profit or loss are securities designated irrevocably, at initial recognition into this category. Management designates securities into this category only if (i) 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 (ii) 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 Company'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 profit or loss.

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 investment securities available for sale. 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 removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. 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 current period's profit or loss.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company 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.

Intangible assets. All of the Company's intangible assets have definite useful life and primarily include acquired computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of up to ten years.

Depreciation and amortization. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Office equipment	16% - 20% per annum;
Computer equipment	25% - 33% per annum;
Computer software	10% - 20% per annum;
Leasehold improvements	Over the term of the underlying lease.

Due to banks and funding from companies within the Group. Amounts due to banks and funding from companies within the Group are recorded when money or other assets are advanced to the Company by counterparty banks or companies. The non-derivative liabilities are carried at amortised cost.

Payables. Payables consist of payables for securities purchased, advances received for securities sold and other payables. Payables are carried at amortised cost.

Income taxes. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The current income tax is calculated in the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country in which the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the 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 transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Company where there is an intention to settle the balances on a net basis.

Income and expense recognition. Interest income and expense are recorded in the profit or loss 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 and points 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. The Company 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.

Commissions and fees arising from transactions with securities, 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.

Derivative financial instruments. 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 gains or losses from trading in foreign currencies and precious metals, gains or losses from operations with trading securities, depending on the related contracts.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Although often the Company trades in derivative financial instruments for hedging purposes the Company does not apply hedge accounting.

Fiduciary activities. The Company 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 these financial statements, as they are not assets and liabilities of the Company. Commissions received from such operations are shown in fee and commission income within the statement of income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the 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.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the end of reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

Foreign currency translation. Monetary assets and liabilities are translated into the functional currency at the exchange rate at the respective reporting period endings. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at year-end exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The Company used the following period end rates for translation into USD:

	31 December 2010	31 December 2009
1 RR	0.0328	0.0331
1 EURO	1.3234	1.4346

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in these financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Functional currency of the Company. Functional currency of the Company is the currency of the primary economic environment in which it operates. These financial statements have been presented in US Dollars and the functional currency of the Company is US Dollars. The functional currency of the Company has been determined based on the underlying economic conditions of its operations. This determination of what the specific underlying economic conditions are requires judgment. In making this judgment, the Company evaluates, among other factors, the location of its activities, the sources of its revenue, risks associated with its activities and currency denomination of its operations. Specifically, in determination of its functional currency the Company based its judgment on the fact that its major activities include provision of brokerage services to foreign investors. Moreover, the majority of the Company's operations are denominated in US Dollar and also, the US Dollar is the currency in which the business risks and exposures are managed and the performance of the business is measured. Given the significant exposure of the Company to the economy and financial markets of the Russian Federation (Note 2), the alternative to US Dollars as a functional currency for the Company would have been Russian Roubles. In such a case the Company would have recorded foreign exchange translation gains less losses related to its US Dollar balances in the profit or loss and, considering the presentation of the financial statements in US Dollars, offsetting translation movement within other comprehensive income. Management is unable to reliably estimate what those amounts recorded would have been in such a case.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment 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 judgment 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 26.

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 25.

5 Adoption of New or Revised Standards and Interpretations

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 “Financial Instruments: Recognition and Measurement” relating to portfolio hedge accounting.

Certain new standards and interpretations became effective for the Company 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 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 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 requires 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 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 financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

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 interests 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 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 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 amendment did not have a material impact on these 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 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 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 financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Company's 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 Company 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 Company does not expect the amendment to have any material effect on its 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 Company does not expect the amendment to have any material effect on its 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 Company does not expect IFRIC 19 to have any material effect on its 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 Company does not expect the amendment to have any material effect on its 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 Company does not expect the amendment to have any effect on its 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.

The adoption of IFRS 9 is mandatory from 1 January 2013. The Company is considering the implications of the standard and the impact on the Company.

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 amendments are not expected to have any impact on the Company's 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 interests 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 Company); 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 Company does not expect the amendments to have any material effect on its 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 Company does not expect the amendments to have any material effect on its 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.

* Not yet adopted by the European Union.

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 Company does not expect the amendments to have any effect on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements.

7 Cash and Cash Equivalents

<i>In thousands of US Dollars</i>	2010	2009
Current accounts with non-Russian banks	96 316	100 555
Current accounts with Russian banks	49 804	54 104
Total cash and cash equivalents	146 120	154 659

The Company assesses the credit quality of cash and cash equivalents based on credit agencies' ratings. The credit quality of cash and cash equivalents as at 31 December 2010 and 2009 was as follows:

<i>In thousands of US Dollars</i>	2010	2009
Neither past due nor impaired		
<i>Standard and Poor's</i>		
- A- to AAA rated	9	80 368
- B- to BBB rated	111 830	74 291
<i>Moody's</i>		
- A3 to Aaa rated	34 281	-
Total cash and cash equivalents	146 120	154 659

Cash and cash equivalents are carried at amortised cost which approximates current fair value. Refer to Note 25. Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 22. Information on balances with related parties is disclosed in Note 26.

8 Trading Securities and Repurchase Receivables

<i>In thousands of US Dollars</i>	2010	2009
Trading securities		
Corporate Eurobonds	71 112	36 463
Russian Federation Eurobonds	227	-
Corporate bonds	181	-
Total debt trading securities	71 520	36 463
Corporate shares	42 754	29 637
ADRs and GDRs	37 725	17 077
Total equity trading securities	80 479	46 714
Total trading securities	151 999	83 177
Repurchase receivables		
Corporate Eurobonds	324 829	-
Russian Federation Eurobonds	181 903	-
Total repurchase receivables relating to debt trading securities	506 732	-
ADRs and GDRs	4 988	-
Corporate shares	645	-
Total repurchase receivables relating to equity trading securities	5 633	-
Total repurchase receivables	512 365	-
Total trading securities and repurchase receivables	664 364	83 177

8 Trading Securities and Repurchase Receivables (Continued)

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Company does not analyse or monitor impairment indicators.

The Company assesses the credit quality of debt trading securities and repurchase receivables related to debt trading securities based on credit agencies' ratings of issuers. The credit quality of debt trading securities and repurchase receivables relating to debt trading securities as at 31 December 2010 and 2009 was as follows:

<i>In thousands of US Dollars</i>	2010	2009
Trading securities		
Neither past due nor impaired (at fair value)		
<i>Standard and Poor's</i>		
- B- to BBB rated	65 042	33 243
- Lower than B- rated	-	3 220
<i>Moody's</i>		
- B3 to Baa1 rated	3 130	-
Total neither past due nor impaired	68 172	36 463
Individually determined to be impaired (at fair value)		
- not past due	2 523	-
- 180 – 360 days overdue	825	-
Total individually determined to be impaired	3 348	-
Total debt trading securities	71 520	36 463
Repurchase receivables		
Neither past due nor impaired (at fair value)		
<i>Standard and Poor's</i>		
- B- to BBB rated	299 749	-
<i>Moody's</i>		
- B3 to Baa1 rated	206 983	-
Total repurchase receivables relating to debt trading securities	506 732	-

Corporate Eurobonds are interest-bearing securities denominated in USD and Euro, issued mainly by large Russian companies, and are freely tradable internationally. As at 31 December 2010 these bonds have maturity dates ranging from February 2011 to November 2020 (2009: from March 2010 to July 2017), coupon rates ranging from 5.0% to 12.8% p.a. (2009: from 1.6% to 17.5% p.a.) and yields to maturity from 2.5% to 39.28% p.a. (2009: from 4.7% to 23.3% p.a.), depending on the type of bond issue.

Russian Federation Eurobonds are interest-bearing securities issued by Ministry of Finance of the Russian Federation and are freely tradable internationally. As at 31 December 2010 Russian Federation Eurobonds have maturity dates ranging from April 2015 to March 2030, coupon rates ranging from 3.6% to 12.75% p.a. and yields to maturity from 4.1% to 5.8% p.a., depending on the type of bond issue.

Corporate shares are represented mainly by shares of major Russian monopolies.

American Depository Receipts ("ADRs") and Global Depository Receipts ("GDRs") are based on shares of major Russian companies and are freely tradable internationally.

During 2010 year the Company received trading securities in the amount of USD 60 909 thousand in a settlement of balance receivable from the Company within the Group. Refer to Note 12.

8 Trading Securities and Repurchase Receivables (Continued)

Geographical, currency, maturity and interest rate analyses of trading securities and repurchase receivables relating to trading securities are disclosed in Note 22. The information on trading securities issued by related parties and owned by the Company is disclosed in Note 26.

9 Due from Banks

<i>In thousands of US Dollars</i>	2010	2009
Reverse sale and repurchase agreements	144 409	1 967
Margin call deposits related to derivatives	106 834	70 084
Total due from banks	251 243	72 051

As at 31 December 2010 reverse sale and repurchase agreements with other banks were effectively collateralized by securities purchased under reverse sale and repurchase agreements with a fair value of USD 186 495 thousand (2009: USD 2 255 thousand).

The Company assesses the credit quality of due from banks balances based on credit agencies' ratings. The credit quality of due from banks balances as at 31 December 2010 was as follows:

<i>In thousands of US Dollars</i>	Reverse sale and repurchase agreements	Margin call deposits related to derivatives	Total
Neither past due nor impaired			
<i>Standard and Poor's</i>			
- A- to AAA rated	14 478	70 202	84 680
- B- to BBB rated	86 845	-	86 845
<i>Moody's</i>			
- A3 to Aaa rated	-	36 632	36 632
- B3 to Bbb1 rated	43 086	-	43 086
Total due from banks	144 409	106 834	251 243

Analysis by credit quality of due from banks balances as at 31 December 2009 was as follows:

<i>In thousands of US Dollars</i>	Reverse sale and repurchase agreements	Margin call deposits related to derivatives	Total
Neither past due nor impaired			
- A- to AAA rated	-	62 554	62 554
- B- to BBB rated	1 967	3 043	5 010
- Unrated	-	4 487	4 487
Total due from banks	1 967	70 084	72 051

Fair value of each class of financial assets included in due from banks approximates its carrying value. Refer to Note 25. For the purposes of measurement the Company classified all balances included in due from banks as loans and receivables. Geographical, currency, maturity and interest rate analyses of due from banks are disclosed in Note 22. The information on related party balances is disclosed in Note 26.

10 Loans and Advances to Customers

<i>In thousands of US Dollars</i>	2010	2009
Reverse sale and repurchase agreements with customers	52 691	-
Loans and advances to customers	976	6 881
Total loans and advances to customers	53 667	6 881

As at 31 December 2010 reverse sale and repurchase agreements with customers were effectively collateralized by securities purchased under reverse sale and repurchase agreements with a fair value of USD 89 144 thousand.

The Company assesses the credit quality of Loans and advances to customers based on credit agencies' ratings. For those counterparties with no external rating available the Company assumes that the credit history and occurrence of defaults in the past can serve as a reasonable indicator for differentiation of the credit quality. Thus, the Company splits Loans and advances to customers with no external rating into two groups:

Group 1 – new customers (credit history of less than 6 months);

Group 2 – existing customers (credit history of more than 6 months) with no defaults in the past.

The credit quality of Loans and advances to customers as at 31 December 2010 and 2009 was as follows:

<i>In thousands of US Dollars</i>	2010	2009
Neither past due nor impaired		
<i>Standard and Poor's</i>		
- B- to BBB rated	43 772	1
<i>Moody's</i>		
- A3 to Aaa rated	8 920	-
<i>Counterparties without external credit rating</i>		
- Group 1	-	644
- Group 2	975	6 236
Total loans and advances to customers	53 667	6 881

As at 31 December 2010 and 2009 the fair value of each class of financial assets included in loans and advances to customers approximated their carrying value. Refer to Note 25. For the purposes of measurement the Company classified all balances included in loans and advances as loans and receivables. Geographical, currency, maturity and interest rate risk analyses of loans and advances are disclosed in Note 22. The information on related party balances is disclosed in Note 26.

11 Investments

Investments available for sale

As at 31 December 2010 Investments available for sale were primary represented by participating shares in an investment fund domiciled in Russia (2009: investment funds domiciled in Russia and the Cayman Islands).

Movements in investments available for sale were as follows:

<i>In thousands of US Dollars</i>	2010	2009
Carrying value as at 1 January	7 058	7 661
Disposals	(5 616)	(3 914)
Movement in fair value reserve	270	3 311
Total investments available for sale as at 31 December	1 712	7 058

11 Investments (continued)

Investments in companies within the Group

<i>In thousands of US Dollars</i>	2010	2009
Investments in companies within the Group at cost		
OJSC Alfa-Bank (Russian Federation, 0.1136%)	27 964	27 964
Alfa Capital LLC (Ukraine, 100.00%)	3 000	3 000
Alfa-Trust AO (Russian Federation, 2010: 0,00%/2009: 99.00%)	-	1 390
Less: provision for impairment	(25 308)	(25 308)
Total investments in companies within the Group	5 656	7 046

The provision for impairment in the amount of USD 25 308 thousand was estimated by Management on the basis of considering financial information of the companies.

Participation shares in Alfa-Trust AO were disposed during 2010 year with the loss from disposal in the amount of USD 90 thousand.

In January 2010 the Company purchased 100% shares of Reamaron Limited, a limited liability company registered in the British Virgin Islands and in December 2010 sold those shares to a company within the Group for the same consideration. Also, refer to Note 19.

12 Other Financial Assets

<i>In thousands of US Dollars</i>	Note	2010	2009
Receivables on operations with securities and foreign currencies		209 496	153 925
Positive fair value of derivatives	24	90 487	328 286
Other		10 602	4 003
Less: provision for impairment of other assets		(1 175)	-
Total other financial assets		309 410	486 214

During the year ended 31 December 2010 certain balances receivable from the companies within the Group were settled by receipt of securities with fair value of USD 60 909 thousand (Note 8), by netting with balance of dividends payable by the Company in the amount of USD 74 595 thousand (Note 16) and other payables balances in the amount of USD 493 745 thousand (Notes 15 and 19).

Movements in the provision for impairment of other financial assets were as follows:

<i>In thousands of US Dollars</i>	2010	2009
Provision for impairment as at 1 January	-	-
Provision for impairment during the year	2 868	-
Amounts written off during the year as uncollectible	(1 693)	-
Provision for impairment as at 31 December	1 175	-

The Company assesses the credit quality of other financial assets based on credit agencies' ratings of counterparties. For those counterparties with no external rating available the Company assumes that the credit history and occurrence of defaults in the past can serve as a reasonable indicator for differentiation of the credit quality. Thus, the Company splits other financial assets with counterparties with no external rating into two groups:

Group 1 – new customers (credit history of less than 6 months);

Group 2 – existing customers (credit history of more than 6 months) with no defaults in the past.

12 Other Financial Assets (Continued)

The credit quality of other financial assets as at 31 December 2010 based on ratings of counterparties was as follows:

	Receivables on operations with securities and foreign currencies	Positive fair value of derivatives	Other	Total
<i>In thousands of US Dollars</i>				
Neither past due nor impaired				
<i>Standard and Poor's</i>				
- A- to AAA rated	570	9 756	-	10 326
- B- to BBB rated	186 324	72 785	3 014	262 123
- Lower than B- rated	13 925	-	-	13 925
<i>Moody's</i>				
- A3 to Aaa rated	992	3 522	-	4 514
<i>Counterparties without external credit rating</i>				
- Group 1	7 685	4 424	2 454	14 563
Total neither past due nor impaired	209 496	90 487	5 468	305 451
Not past due but impaired	-	-	5 134	5 134
Total gross other financial assets	209 496	90 487	10 602	310 585
Impairment	-	-	(1 175)	(1 175)
Total other financial assets	209 496	90 487	9 427	309 410

The credit quality of other financial assets as at 31 December 2009 based on ratings of counterparties was as follows:

	Receivables on operations with securities and foreign currencies	Positive fair value of derivatives	Other	Total
<i>In thousands of US Dollars</i>				
Neither past due nor impaired				
<i>Standard and Poor's</i>				
- A- to AAA rated	-	18 385	-	18 385
- B- to BBB rated	138 299	298 296	-	436 595
<i>Counterparties without external credit rating</i>				
- Group 2	15 626	11 605	4 003	31 234
Total other financial assets	153 925	328 286	4 003	486 214

As at 31 December 2010 and 2009 the estimated fair value of each class of other financial assets approximated their carrying value. Refer to Note 25. For the purposes of measurement the Company classified all balances included in other financial assets, except for derivative financial instruments, as loans and receivables. Refer to Note 24 for information on derivative financial instruments. Geographical, currency and maturity analyses of other financial assets are disclosed in Note 22. Information on balances with related parties is disclosed in Note 26.

13 Intangible Assets, Equipment and Leasehold Improvements

<i>In thousands of US Dollars</i>	Note	Intangible assets	Equipment	Leasehold improvements	Total
Carrying amount as at 31 December 2008		7 736	296	57	8 089
Cost					
Opening balance		23 166	981	474	24 621
Additions		2	84	220	306
Disposals		(239)	(81)	-	(320)
Closing balance		22 929	984	694	24 607
Accumulated depreciation					
Opening balance		(15 430)	(685)	(417)	(16 532)
Depreciation and amortization	20	(2 608)	(109)	(69)	(2 786)
Disposals		(200)	(67)	-	(267)
Closing balance		(18 238)	(861)	(486)	(19 585)
Carrying amount as at 31 December 2009		4 691	123	208	5 022
Cost					
Opening balance		22 929	984	694	24 607
Additions		9	98	-	107
Disposals		-	(19)	-	(19)
Closing balance		22 938	1 063	694	24 695
Accumulated depreciation					
Opening balance		(18 238)	(861)	(486)	(19 585)
Depreciation and amortization	20	(2 609)	(139)	(48)	(2 796)
Disposals		-	19	-	19
Closing balance		(20 847)	(981)	(534)	(22 362)
Carrying amount as at 31 December 2010		2 091	82	160	2 333

Intangible assets represent computer accounting software used by OJSC Alfa-Bank, a subsidiary of the Group. During 2002 the Company has explicitly granted OJSC Alfa-Bank the right to use the software until the end of 2007 in exchange for annual royalty payments in the amount of USD 2 000 thousand. In December 2007, December 2008, December 2009 and December 2010 the licensing agreement had been extended on the same terms and conditions for a period of a year.

14 Due to Banks

<i>In thousands of US Dollars</i>	2010	2009
Sale and repurchase agreements	539 462	1 775
Margin call deposits related to derivatives	2 453	4 323
Total due to banks	541 915	6 098

As at 31 December 2010 sale and repurchase receivables were effectively secured by trading securities in the amount of USD 512 365 thousand and trading securities purchased under reverse sale and repurchase agreements with a fair value of USD 191 635 thousand.

As at 31 December 2010 and 2009 the fair value of each class of financial liabilities included in due to banks approximated their carrying value. Refer to Note 25. Geographical, currency, maturity and interest rate analyses of due to banks are disclosed in Note 22. Information on the balances with related parties is disclosed in Note 26.

15 Other Financial Liabilities

<i>In thousands of US Dollars</i>	2010	2009
Payables on operations with securities and foreign currencies	254 548	243 624
Negative fair value of derivatives	89 565	61 702
Dividends payable	31 889	21 484
Other	2 669	1 454
Total other financial liabilities	378 671	328 264

As at 31 December 2010 and 2009 the fair value of each class of other financial liabilities approximated their carrying value. Refer to Note 25.

During the year ended 31 December 2010 certain balances payable to the companies within the Group were settled by netting with balances receivable from companies within the Group in the amount of USD 568 340 thousand. Refer to Note 12, 16 and 26.

Geographical, currency and maturity analyses of other financial liabilities are disclosed in Note 22. Information on balances with related parties is disclosed in Note 26.

16 Share Capital and Share Premium

As at 31 December 2010 and 2009 authorised, issued and fully paid capital consisted of 3 000 000 ordinary shares. All shares rank equally and carry one vote.

With the introduction of the Euro as the official currency of the Republic of Cyprus as from 1 January 2008, the share capital of the Company was converted into Euro based on the definite fixing of the exchange rate €1=C£0.585274. The authorized and issued share capital of C£3 000 thousand divided into 3 000 000 ordinary shares with nominal value of C£1 each was converted into EUR 5 130 thousand divided into 3 000 000 ordinary shares with rounded nominal value of EUR 1.71 each. As a result of rounding up the share capital of the Company was increased by EUR 4 thousand (USD 6 thousand), which was paid out of retained earnings.

In July 2010 the Company declared dividends in the amount of USD 85 000 thousand (2009: USD 21 484 thousand). On 31 December 2010 the amount of USD 74 595 thousand of dividends was netted against accounts receivable from the companies within the Group. Refer to Note 12. Refer to Note 15 for the dividends payable outstanding as at 31 December 2010 and 2009.

17 Interest Income and Expense

<i>In thousands of US Dollars</i>	2010	2009
Interest income		
Debt trading securities and repurchase receivables relating to trading securities	30 288	12 755
Due from banks	1 926	444
Loans and advances to customers	183	321
Other	180	-
Total interest income	32 577	13 520
Interest expense		
Funding from companies within the Group	4 714	2 132
Margin accounts	3 991	10 478
Due to banks	3 951	453
Other	18	54
Total interest expense	12 674	13 117
Net interest income	19 903	403

Refer to Note 26 for information on related parties transactions.

18 Fee and Commission Income and Expense

<i>In thousands of US Dollars</i>	2010	2009
Fee and commission income		
Transactions with securities	2 199	2 375
Consulting services	493	2 012
Other	34	79
Total fee and commission income	2 726	4 466
Fee and commission expense		
Transactions with securities	6 300	5 150
Cash and foreign currency exchange transactions	835	1 465
Other	5	-
Total fee and commission expense	7 140	6 615
Net fee and commission expense	(4 414)	(2 149)

Refer to Note 26 for information on related parties transactions.

19 Other operating income

<i>In thousands of US Dollars</i>	2010	2009
Dividend income	327 099	685
Other	2 259	2 241
Total other operating income	329 358	2 926

In November 2010 Reamaron Limited declared dividends in the amount of USD 326 356 thousand out of profits made since the date of its acquisition by the Company.

20 Operating Expenses

<i>In thousands of US Dollars</i>	Note	2010	2009
Staff costs		4 882	4 713
Consulting and professional services		2 339	2 999
Depreciation and amortization	13	2 796	2 786
Communications		341	327
Rent, heat and utilities		224	584
Other		1 125	778
Total operating expenses		11 707	12 187

The consulting and professional services expenses stated above include audit fees of USD 11 thousand (2009: USD 11 thousand), fees of USD 158 thousand (2009: USD 206 thousand) for tax consultancy services, USD 13 thousand (2009: USD 20 thousand) for other assurance services and USD 55 thousand (2009: USD 151 thousand) for other non-assurance services charged by the Company's statutory auditor.

Refer to Note 26 for information on related parties transactions.

21 Income Taxes

<i>In thousands of US Dollars</i>	2010	2009
Current tax		
Corporation tax	217	122
Income tax charge for the year	217	122

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

<i>In thousands of US Dollars</i>	2010	2009
Accounting profit before tax	86 515	68 568
Theoretical tax charge at the applicable rate 10%	8 652	6 857
Tax effect of expenses not deductible for tax purposes	27 450	43 610
Tax effect of allowances and income not subject to tax	(32 985)	(25 933)
Tax effect of losses brought forward	(2 900)	(24 412)
Income tax charge	217	122

21 Income Taxes (continued)

The Company is subject to corporation tax on taxable profits at the rate of 10%.

Up to 31 December 2008, under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax rate burden of approximately 15%.

From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and only subject to defence contribution at the rate of 10%.

In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon, etc) are exempt from Cyprus income tax.

The tax (charge)/credit relating to components of other comprehensive income is as follows:

Tax effects of components of other comprehensive income

<i>In thousands of US Dollars</i>	Year ended 31 December					
	2010			2009		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
Available-for-sale financial assets:						
Fair value loss/(gains)	3 041	-	3 041	(3 311)	-	(3 311)

22 Financial Risk Management

The risk management function within the Company is based on the policy adopted by the Parent and carried out in respect of financial risks (market, credit, geographical, currency, liquidity and interest rate), operational and legal risks. The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures and procedures to minimize operational and legal risks. The primary objective of the Group's risk management is to achieve an optimal level of risk-return of its operations.

Market risk. The Company takes on exposure to market risks. Market risks arise from open positions in currency, interest rate and equity products (price risk), all of which are exposed to general and specific market movements.

The Company's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The risk management function is carried out by a centralized Risk Management Department of the Group. Limits on securities are approved by Assets and Liabilities Committee of the Group ("ALCO") based on analyses performed by the Group's Risk Management Department.

Credit risk. The Company takes on exposure to credit risk that is the risk that a counterparty will be unable to pay amounts in full when due. The Company 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. Such risks are monitored on a revolving basis and subject to regular review. The Executive Board of the Group regularly approves limits on the level of credit risk by product, borrower and industry sectors.

22 Financial Risk Management (Continued)

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 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 counterparties are given for the consideration to Management.

The level of credit risk exposure of the Company is subject to a monitoring process.

Exposure to credit risk is managed by the Credit Department and the Risk Management Department of the Group 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 guarantees. The Credit Department identifies potentially problematic deals using unambiguous set of criteria to assign a problem status to a transaction, as well as escalation procedures based on problem status.

Portfolio concentration limits are checked on a weekly basis and reported to the Credit Committee, as well as situations where limits utilization is close to maximum. The 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.

Any significant exposures to customers with deteriorating creditworthiness are reported to and reviewed by Management.

There is a control environment established in the Company, 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 Group's policies and procedures. 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.

Incorporated in risk assessment and lending decisions is a credit risk premium. The credit risk premium seeks to provide a fair compensation for the amount of credit risk accepted by the Company.

The amount of the Company's maximum exposure to credit risk is reflected in the carrying value of financial assets in the statement of financial position.

22 Financial Risk Management (Continued)

Geographical risk is the risk of losses as a result of foreign counterparties failing to meet their obligations due to economical, political and social changes in respective regions.

The geographical concentration of the Company's assets and liabilities as at 31 December 2010 is disclosed in table below:

<i>In thousands of US Dollars</i>	Russia	Europe	Other	Total
Assets				
Cash and cash equivalents	96 316	49 761	43	146 120
Trading securities	124 146	809	27 044	151 999
Repurchase receivables relating to trading securities	486 372	-	25 993	512 365
Due from banks	129 936	121 307	-	251 243
Loans and advances to customers	15 196	37 698	773	53 667
Investments available for sale	1 712	-	-	1 712
Investments in companies within the Group	3 671	-	1 985	5 656
Other financial assets	42 425	261 716	5 269	309 410
Intangible assets, equipment and leasehold improvements	-	2 333	-	2 333
Taxes prepaid	-	658	-	658
Total assets	899 774	474 282	61 107	1 435 163
Liabilities				
Due to banks	65 772	476 143	-	541 915
Funding from companies within the Group	129 218	-	-	129 218
Other financial liabilities	57 666	310 001	11 004	378 671
Current tax liabilities	-	1 583	-	1 583
Total liabilities	252 656	787 727	11 004	1 051 387
Net balance sheet position as at 31 December 2010	647 118	(313 445)	50 103	383 776

22 Financial Risk Management (Continued)

The geographical concentration of the Company's assets and liabilities as at 31 December 2009 is disclosed in table below:

<i>In thousands of US Dollars</i>	Russia	Europe	Other	Total
Assets				
Cash and cash equivalents	54 104	100 323	232	154 659
Trading securities	81 870	251	1 056	83 177
Due from banks	1 970	65 594	4 487	72 051
Loans and advances to customers	2	1 857	5 022	6 881
Investments available for sale	7 058	-	-	7 058
Investments in companies within the Group	4 046	-	3 000	7 046
Other financial assets	427 188	43 681	15 345	486 214
Intangible assets, equipment and leasehold improvements	4 691	331	-	5 022
Taxes prepaid	-	212	-	212
Total assets	580 929	212 249	29 142	822 320
Liabilities				
Due to banks	1 776	4	4 318	6 098
Funding from companies within the Group	100 511	-	-	100 511
Other financial liabilities	208 680	82 223	37 361	328 264
Other liabilities	-	133	-	133
Current tax liabilities	-	1 795	-	1 795
Total liabilities	310 967	84 155	41 679	436 801
Net balance sheet position as at 31 December 2009	269 962	128 094	(12 537)	385 519

Balances with Russian counterparties actually outstanding to/from offshore companies of these Russian counterparties are allocated to the caption "Russia". Intangible assets have been allocated based on the country where they are used. Equipment and leasehold improvements have been allocated based on the country in which they are physically held.

Currency risk is the risk that movements in foreign exchange rates will have an adverse effect on the Company's income or the value of its portfolio of financial instruments.

22 Financial Risk Management (Continued)

The table below summaries the Company's exposure to foreign currency exchange rate risk as at 31 December 2010:

<i>In thousands of US Dollars</i>	USD	RUR	Other currencies	Non- monetary	Total
Assets					
Cash and cash equivalents	90 679	18 992	36 449	-	146 120
Trading securities	27 521	42 632	1 366	80 480	151 999
Repurchase receivables relating to trading securities	506 732	-	-	5 633	512 365
Due from banks	166 001	52 877	32 365	-	251 243
Loans and advances to customers	38 472	15 195	-	-	53 667
Investments available for sale	-	-	-	1 712	1 712
Investments in companies within the Group	-	-	-	5 656	5 656
Other financial assets	239 770	61 016	8 624	-	309 410
Intangible assets, equipment and leasehold improvements	-	-	-	2 333	2 333
Taxes prepaid	-	-	658	-	658
Total assets	1 069 175	190 712	79 462	95 814	1 435 163
Liabilities					
Due to banks	468 104	62 878	10 933	-	541 915
Funding from companies within the Group	80 000	49 218	-	-	129 218
Other financial liabilities	283 191	72 694	22 786	-	378 671
Current tax liabilities	-	-	1 583	-	1 583
Total liabilities	831 295	184 790	35 302	-	1 051 387
Net balance sheet position	237 880	5 922	44 160	95 814	383 776
Net balance sheet position less fair value of foreign currency exchange derivatives	236 588	7 697	43 526	96 247	384 058
Derivatives (Note 24)	118 017	(109 832)	(8 467)	-	(282)
Net balance sheet and derivatives position as at 31 December 2010	354 605	(102 135)	35 059	96 247	383 776

22 Financial Risk Management (Continued)

The table below summaries the Company's exposure to foreign currency exchange rate risk as at 31 December 2009:

<i>In thousands of US Dollars</i>	USD	RUR	Other currencies	Non-monetary	Total
Assets					
Cash and cash equivalents	117 615	25 203	11 841	-	154 659
Trading securities	32 112	13	4 338	46 714	83 177
Due from banks	57 809	-	14 242	-	72 051
Loans and advances to customers	6 880	1	-	-	6 881
Investments available for sale	-	-	-	7 058	7 058
Investments in companies within the Group	-	-	-	7 046	7 046
Other financial assets	181 206	302 756	2 252	-	486 214
Intangible assets, equipment and leasehold improvements	-	-	-	5 022	5 022
Taxes prepaid	-	-	212	-	212
Total assets	395 622	327 973	32 885	65 840	822 320
Liabilities					
Due to banks	1 780	-	4 318	-	6 098
Funding from companies within the Group	100 511	-	-	-	100 511
Other financial liabilities	178 862	143 620	5 782	-	328 264
Other liabilities	133	-	-	-	133
Current tax liabilities	-	-	1 795	-	1 795
Total liabilities	281 286	143 620	11 895	-	436 801
Net balance sheet position	114 336	184 353	20 990	65 840	385 519
Net balance sheet position less fair value of foreign currency exchange derivatives	109 710	185 919	19 330	65 840	380 799
Derivatives (Note 24)	14 005	(114 279)	104 994	-	4 720
Net balance sheet and derivatives position as at 31 December 2009	123 715	71 640	124 324	65 840	385 519

The Company is exposed to currency risk arising from foreign currency exposures mainly with respect to Russian Rouble and Euro. Foreign exchange risk arises from future transactions and recognised assets and liabilities. The Company does not have a policy to hedge currency risk exposure. The management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Derivatives represent the fair value, as at the end of the reporting period, of the respective currency that the Company 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 24.

The following table represents sensitivities of profit and loss to reasonably possible changes in exchange rates on currencies other than functional currency applied at the end of reporting period, with all other variables held constant.

<i>In thousands of US Dollars</i>	2010	2009
	Impact on profit or loss (pre-tax)	Impact on profit or loss (pre-tax)
Russian Rouble strengthening by 10%	(10 214)	7 164
Russian Rouble weakening by 10%	10 214	(7 164)
Other currencies strengthening by 10%	3 506	12 432
Other currencies weakening by 10%	(3 506)	(12 432)

22 Financial Risk Management (Continued)

All transactions with currency risk exposure are performed within limits for open foreign currency position. Such limits are established taking into consideration expected future movements in foreign exchange rates which are based on historical volatilities, scenario modelling and expert estimates.

The exposure was calculated only for monetary assets and liabilities denominated in currencies other than the functional currency of the Company.

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, availability of funding through an adequate amount of committed credit facilities and the ability to close out market position. The Company seeks to actively support a diversified and stable funding base comprising borrowings from the Group as well as external investors.

Management monitors rolling forecasts of the Company's liquidity reserve (comprises cash and cash equivalents and trading securities) on the basis of expected cash flows. This is generally carried out at the Group's and Company's level in accordance with practice and limits adopted by the Group. The Company prepares the liquidity profile of the financial assets and liabilities and builds up an adequate portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained for the Company.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, prices specified in deliverable forward agreements to purchase financial assets for cash, contractual amounts to be exchanged under a gross settled currency swaps. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position 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 is 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 reporting period.

The undiscounted maturity analysis of financial liabilities as at 31 December 2010 was as follows:

<i>In thousands of US Dollars</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to banks	254 201	-	289 134	-	543 335
Funding from companies within the Group	712	81 220	50 164	-	132 096
Other non-derivative financial liabilities	289 106	-	-	-	289 106
Gross settled derivatives					
-inflow	(291 878)	(11 438)	(10 884)	(162 998)	(477 198)
-outflow	296 291	7 690	7 523	176 373	487 877
Net settled derivatives	14 613	51 538	1 218	12 078	79 447
Total potential future payments for financial obligations	563 045	129 010	337 155	25 453	1 054 663

22 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial liabilities as at 31 December 2009 was as follows:

<i>In thousands of US Dollars</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Liabilities					
Due to banks	6 098	-	-	-	6 098
Funding from companies within the Group	121	100 727	-	-	100 848
Other non-derivative financial liabilities	266 562	-	-	-	266 562
Gross settled derivatives					
-inflow	(129 185)	(11 957)	(12 332)	(12 040)	(165 514)
-outflow	126 681	-	-	-	126 681
Net settled derivatives	5 258	54 992	15 251	27 546	103 047
Total potential future payments for financial obligations	275 535	143 762	2 919	15 506	437 722

Payments in respect of gross settled forwards will be accompanied by related cash inflows as disclosed above.

The Company does not use the above undiscounted maturity to manage liquidity. Instead, the Company monitors expected maturity, which may be summarized as at 31 December 2010 as follows:

<i>In thousands of US Dollars</i>	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	146 120	-	-	-	-	146 120
Trading securities	151 999	-	-	-	-	151 999
Repurchase receivables relating to trading securities	299 347	-	213 018	-	-	512 365
Due from banks	236 765	-	14 478	-	-	251 243
Loans and advances to customers	53 667	-	-	-	-	53 667
Investments available for sale	-	-	-	-	1 712	1 712
Investments in companies within the Group	-	-	-	-	5 656	5 656
Other financial assets	232 931	47 648	1 227	27 604	-	309 410
Intangible assets, equipment and leasehold improvements	-	-	-	-	2 333	2 333
Taxes prepaid	658	-	-	-	-	658
Total assets	1 121 487	47 648	228 723	27 604	9 701	1 435 163
Liabilities						
Due to banks	254 134	-	287 781	-	-	541 915
Funding from companies within the Group	-	80 000	49 218	-	-	129 218
Other financial liabilities	299 872	57 389	-	21 410	-	378 671
Current tax liabilities	1 583	-	-	-	-	1 583
Total liabilities	555 589	137 389	336 999	21 410	-	1 051 387
Net expected liquidity gap as at 31 December 2010	565 898	(89 741)	(108 276)	6 194	9 701	383 776
Cumulative expected liquidity gap as at 31 December 2010	565 898	476 157	367 881	374 075	383 776	

22 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 Company:

<i>In thousands of US Dollars</i>	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	154 659	-	-	-	-	154 659
Trading securities	83 177	-	-	-	-	83 177
Due from banks	72 051	-	-	-	-	72 051
Loans and advances to customers	6 881	-	-	-	-	6 881
Investments available for sale	-	-	-	-	7 058	7 058
Investments in companies within the Group	-	-	-	-	7 046	7 046
Other financial assets	169 865	27 733	190 564	98 052	-	486 214
Intangible assets, equipment and leasehold improvements	-	-	-	-	5 022	5 022
Taxes prepaid	212	-	-	-	-	212
Total assets	486 845	27 733	190 564	98 052	19 126	822 320
Liabilities						
Due to banks	6 098	-	-	-	-	6 098
Funding from companies within the Group	-	100 511	-	-	-	100 511
Other financial liabilities	273 944	49 443	2 821	2 056	-	328 264
Other liabilities	-	133	-	-	-	133
Current tax liabilities	1 795	-	-	-	-	1 795
Total liabilities	281 837	150 087	2 821	2 056	-	436 801
Net expected liquidity gap as at 31 December 2009	205 008	(122 354)	187 743	95 996	19 126	385 519
Cumulative expected liquidity gap as at 31 December 2009	205 008	82 654	270 397	366 393	385 519	

The above analysis is based on expected maturities and therefore the entire portfolio of trading securities is classified within demand and less than one month based on Management's assessment of portfolio's realisability.

Interest rate risk is 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.

As evidenced by the table below which discloses exposure to interest rate risks, the Company does not have significant long-term interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

The Company's management monitors the interest rate fluctuations on a continuous basis through analysis of the structure of assets and liabilities by repricing dates and acts accordingly.

22 Financial Risk Management (Continued)

The table presents the aggregated amounts of the Companies' financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

<i>In thousands of US Dollars</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
31 December 2010						
Total financial assets	969 655	47 648	228 723	98 299	87 847	1 432 172
Total financial liabilities	554 006	137 389	336 999	21 410	-	1 049 804
Net interest sensitivity gap as at 31 December 2010	415 649	(89 741)	(108 276)	76 889	87 847	382 368
31 December 2009						
Total financial assets	403 707	38 074	192 967	121 520	60 818	817 086
Total financial liabilities	275 429	142 727	3 041	13 676	-	434 873
Net interest sensitivity gap as at 31 December 2009	128 278	(104 653)	189 926	107 844	60 818	382 213

The table below summarizes the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using year-end effective contractual rates.

<i>In thousands of US Dollars</i>	31 December 2010			31 December 2009		
	USD	RUR	Other	USD	RUR	Other
Assets						
Cash and cash equivalents	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Trading securities	8.5%	8.4%	3.9%	5.4%	17.5%	2.6%
Repurchase receivables relating to trading securities	6.6%	-	-	-	-	-
Due from banks						
– margin deposits	0.1%	-	0.8%	0.2%	-	0.3%
– reverse sale and repurchase agreements with banks	1.1%	1.5%	1.4%	3.0%	-	-
Loans and advances to customers						
– reverse sale and repurchase agreements with customers	0.3%	0.6%	-	-	-	-
– other loans and advances to customers	0.0%	8.5%	-	7.5%	0.0%	-
Liabilities						
Due to banks						
– sale and repurchase agreements with banks	1.1%	(4.4%)*	1.5%	1.8%	-	-
– margin deposits	0.0%	-	0.0%	0.0%	-	3.0%
Funding from companies within the Group	6.2%	7.5%	-	1.3%	-	-

*As at 31 December 2010 certain sale and repurchase agreements had negative interest rates since the Company was able to take advantage of the temporary shortage of certain securities on the market.

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 for the year would have been USD 2 205 lower (2009: USD 444 thousand lower).

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 2 205 higher (2009: USD 444 thousand higher).

23 Management of Capital

The Company's objectives when managing capital are (i) to comply with the capital adequacy requirements set by the regulator (CySEC), (ii) to ensure the Company's ability to continue as a going concern and (iii) to support the development of the business. The Company'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 future development of the Company.

Capital adequacy and the use of the regulatory capital are monitored daily by the Company's Management employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by CySEC, for supervisory purposes. The required information is filed with the authority on a monthly basis.

The Company plans its capital needs to be able to comply with CySEC capital adequacy requirements with a one year horizon. Under the current requirement set by CySEC the Company should maintain a ratio of eligible own funds (capital) to risk weighted assets ("capital adequacy ratio") above 8%. The risk-weighted assets are measured by means of a hierarchy of risk weights classified accordingly to the nature of (and reflecting an estimate of credit, market and other risks associated with) each asset and counterparty, taking into account any eligible collateral or guarantee. A similar treatment is adopted for off-balance sheet items, with some adjustments to reflect the more contingent nature of these potential exposures.

The Company performs medium and long term planning of growth in risk assets considering sufficiency of capital available. When necessary the Company develops and implements measures to increase its capital base.

The Company has complied with all externally imposed capital requirements throughout 2010 and 2009.

24 Commitments and Contingencies

Legal and Tax Environment. The securities industry in the Russian Federation operates in an uncertain legal and tax environment. Efforts to enact comprehensive securities legislation continue. Furthermore, the Company operates in both Cypriot and Russian tax jurisdictions.

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 Russian tax authorities, non-taxable status of the Company in Russia may be challenged. The impact of any such challenge can not be reliably estimated; however it may be significant to the financial condition and/or the overall operations of the Company. The management of the Company is of the opinion that the operations of the Company are conducted in a manner that does not give rise to any material tax liabilities other than those provided for in these financial statements.

In the normal course of business, the Company must interpret and apply existing legislation to transactions with third parties and its own activities. In Management's opinion, the Company is substantially in compliance with the tax and other laws governing their operations; however, the risk remains that the relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant.

To the best of Management's knowledge, no material breaches of law have occurred. Thus, the Company has not recorded any provision for potential impact of any such breaches as at 31 December 2010 and 2009.

Legal Proceedings. As at 31 December 2010 and 2009 the Company was not engaged in any material litigation proceedings.

Assets pledged. As at 31 December 2010 the Company had USD 512 365 thousand (2009: no assets) pledged under sale and repurchase agreement with banks. Refer to Note 8 and 14.

In addition, as at 31 December 2010 margin deposits in the amount of USD 106 834 thousand were placed with banks as collateral for transactions with derivatives (2009: USD 70 084 thousand). Refer to Note 9.

Derivative financial instruments. Foreign exchange and other derivative financial instruments are generally traded in over-the-counter markets with professional market counterparties on standardised or specific contractual terms and conditions.

24 Commitments and Contingencies (Continued)

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded in 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 Company'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 and 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.

<i>In thousands of US Dollars</i>	2010			2009		
	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	498 022	5 612	(4 176)	173 716	6 533	(2 053)
- purchase of securities	15 101	-	(227)	21 527	1	(72)
Non-deliverable forwards						
Securities						
- sale of securities	-	-	-	586	5 017	(26)
Call options						
Commodities						
- written call options	133 171	-	(2 018)	-	-	-
- purchased call options	133 171	2 018	-	-	-	-
Put options						
Commodities						
- written put options	99 994	-	(6 132)	-	-	-
- purchased put options	99 994	6 155	-	-	-	-
Foreign currency						
- written put options	1 250	-	(28)	-	-	-
Swaps						
Interest rate swaps - pay fixed interest, receive floating interest						
	-	-	-	1 244 752	-	(31 550)
Interest rate swaps with a subsidiary of the Group - pay floating interest, receive fixed interest						
	-	-	-	2 727 796	284 014	-
Total		13 785	(12 581)		295 565	(33 701)

24 Commitments and Contingencies (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 entered into by the Company. 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.

<i>In thousands of US Dollars</i>	2010		2009	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Deliverable forwards				
- USD payable on settlement	-	-	(118 844)	-
- EUR receivable on settlement	-	-	120 460	-
Non-deliverable forwards				
- USD receivable on settlement	665 053	3 650 746	689 160	537 440
- USD payable on settlement	(3 538 431)	(627 768)	(435 974)	(595 022)
- EUR receivable on settlement	513	17 926	11 455	40 787
- EUR payable on settlement	-	(1 198)	(135 013)	-
- RUR receivable on settlement	3 598 215	618 687	452 195	555 753
- RUR payable on settlement	(655 747)	(3 671 196)	(555 753)	(566 474)
- Other currencies receivable on settlement	-	-	323	-
- Other currencies payable on settlement	-	(57 729)	-	(485)
Deliverable swaps				
-USD payable on settlement	-	-	(62 755)	-
-EUR receivable on settlement	-	-	67 467	-
Non-deliverable swaps				
- RUR payable on settlement	(185 218)	-	-	-
- USD payable on settlement	-	(80 131)	-	-
- EUR payable on settlement	-	(143 086)	-	-
- RUR receivable on settlement	-	185 427	-	-
- USD receivable on settlement	48 548	-	-	-
- EUR receivable on settlement	143 769	31 338	-	-
Total	76 702	(76 984)	32 721	(28 001)

Forward positions in securities as at 31 December 2010 and 2009 are summarised below.

<i>In thousands of US Dollars</i>	2010		2009	
	Principal or agreed amount Sale	Principal or agreed amount Purchase	Principal or agreed amount Sale	Principal or agreed amount Purchase
Corporate Eurobonds	187 988	-	133 166	-
Russian Federation Eurobonds	126 000	-	-	-
Municipal bonds	101 225	-	-	-
ADRs and GDRs	29 524	7 940	23 269	21 516
Eurobonds of other states	377	-	10 443	-
Corporate shares	20 367	7 161	5 472	11
Corporate bonds	32 541	-	1 952	-
Total	498 022	15 101	174 302	21 527

25 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 Company 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 and investments available for sale are carried on the statement of financial position at their fair value.

Financial instruments carried at cost. The fair value of investments in companies within the Group approximates their carrying amounts.

Financial instruments 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. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values of due from banks and loans and advances to customers approximate their fair values. The carrying value less provision for impairment of other financial assets is assumed to approximate their fair values.

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 Note 14 for the estimated fair values of due to banks. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty.

The carrying value of other financial liabilities is assumed to approximate their fair values.

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 24.

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 banks	0.0% to 1.5% p.a.	0.1% to 3.0% p.a.
Loans and advances to customers	0.0% to 15.0% p.a.	0.0% to 10.0% p.a.
Due to banks	(4.4%)* to 3.1% p.a.	1.8% to 3.0% p.a.
Funding from companies within the Group	6.1% to 7.5% p.a.	1.3% to 1.4% p.a.

*Refer to Note 22.

25 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:

	2010			2009		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
<i>In thousands of US Dollars</i>						
Financial assets						
Trading securities						
- Corporate Eurobonds	67 764	3 348	-	25 173	-	11 290
- Russian Federation Eurobonds	227	-	-	-	-	-
- Corporate bonds	181	-	-	-	-	-
- Corporate shares, ADRs and GDRs	80 479	-	-	46 714	-	-
Repurchase receivables (trading securities)						
- Corporate Eurobonds	324 829	-	-	-	-	-
- Russian Federation Eurobonds	181 903	-	-	-	-	-
- Corporate shares, ADRs and GDRs	5 633	-	-	-	-	-
Investments available for sale						
- Participating shares in investment funds	-	-	1 712	-	-	7 058
Other financial assets						
Foreign exchange forward contracts	-	69 603	-	-	28 009	-
Other financial derivatives	5 612	15 272	-	11 551	288 726	-
Total financial assets carried at fair value	666 628	88 223	1 712	83 438	316 735	18 348
Financial liabilities						
Other financial liabilities						
- Foreign exchange forward contracts	-	70 532	-	-	28 001	-
- Other derivative financial instruments	4 403	14 630	-	2 151	31 550	-
Total financial liabilities carried at fair value	4 403	85 162	-	2 151	59 551	-

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 derivative financial instruments allocated to Level 2 has been determined based on the discounted cash flow (DCF) models with all significant inputs observable in the market.

Level 3. Equity investments available for sale in the amount of USD 1 712 thousand (2009: USD 7 058 thousand) allocated to Level 3 represent investments in unit funds and have been valued using the net assets values reported by the funds' management.

The fair value of trading securities in the amount of USD 11 290 thousand allocated to Level 3 as at 31 December 2009 was for each security determined based on indicative quotes provided by reputable brokerage houses dealing in these securities. Although the Company 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.

25 Fair Value of Financial Instruments (Continued)

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.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2010 was as follows:

<i>In thousands of US Dollars</i>	Trading securities	Equity investments available for sale
Fair value at 1 January 2010	11 290	7 058
Disposals	(10 055)	(5 616)
Transfer from level 3 to level 1	(1 235)	-
Gains less losses recognised in other comprehensive income	-	270
Fair value at 31 December 2010	-	1 712
Revaluation losses less gains recognised in profit or loss for the year for assets held as at 31 December 2010	-	-
Revaluation gains less losses recognised in other comprehensive income for the year for assets held as at 31 December 2010	-	59

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2009 was as follows:

<i>In thousands of US Dollars</i>	Trading securities	Equity investments available for sale
Fair value at 1 January 2009	-	7 661
Acquisition	36 844	-
Disposals	(25 554)	(3 914)
Gains less losses recognised in other comprehensive income	-	3 311
Fair value at 31 December 2009	11 290	7 058
Revaluation losses less gains recognised in profit or loss for the year for assets held as at 31 December 2009	(10 024)	-
Revaluation gains less losses recognised in other comprehensive income for the year for assets held as at 31 December 2009	-	3 311

26 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating 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.

As the Company is a member of the Group and Alfa Group (Note 1), the other companies within the Group and Alfa Group and companies related to the Group and Alfa Group are considered to be related parties and transactions with these companies to be related party transactions.

26 Related Party Transactions (Continued)

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			2009		
	Compa- nies within the Group	Other related parties	Total	Compa- nies within the Group	Other related parties	Total
<i>In thousands of US Dollars</i>						
Assets						
Cash and cash equivalents	111 788	43	111 831	59 904	232	60 136
Trading securities	-	-	-	7 879	-	7 879
Repurchase receivables	-	8 078	8 078	-	-	-
Due from banks	86 348	-	86 348	-	-	-
Loans and advances to customers	689	527	1 216	-	476	476
Investments available for sale	-	1 712	1 712	-	7 058	7 058
Investments in companies within the Group	5 656	-	5 656	7 046	-	7 046
Other financial assets	256 701	1 378	258 079	436 595	2 601	439 196
Total assets with related parties	461 182	11 738	472 920	511 424	10 367	521 791
Liabilities						
Due to banks	65 326	-	65 326	-	-	-
Funding from companies within the Group	129 218	-	129 218	100 511	-	100 511
Other financial liabilities	140 411	11 643	152 054	181 216	11 851	193 067
Total liabilities with related parties	334 955	11 643	346 598	281 727	11 851	293 578
Interest income	2 084	1 648	3 732	2 709	-	2 709
Interest expense	(4 714)	(73)	(4 787)	(2 132)	(6 540)	(8 672)
Fee and commission expense	(5 402)	-	(5 402)	(3 262)	-	(3 262)
Gains less losses arising from trading securities	20 608	305	20 913	27 309	52 642	79 951
Gains less losses arising from foreign currencies	72 742	956	73 698	(3 123)	(63 577)	(66 700)
Gains less losses arising from interest based derivatives	(205 947)	-	(205 947)	180 733	-	180 733
Gains less losses arising from investments available for sale	-	3 313	3 313	-	(218)	(218)
Other operating income (Note 19)	328 356	-	328 356	2 000	-	2 000
Operating expenses	(1 033)	-	(1 033)	(1 115)	-	(1 115)
Total income / (expense) from transactions with related parties	206 694	6 149	212 843	203 119	(17 693)	185 426

Gains less losses arising from interest based derivatives for 2010 in the table above included a loss in the amount of USD 295 750 thousand relating to early termination of interest rate swap agreements with the companies within the Group. Also refer to Notes 12 and 15 for the information on non-cash settlement transactions with companies within the Group during the year.

27 Subsequent Events

There were no material post balance sheet events, which have a bearing on the understanding of the financial statements.

Independent auditor's report on pages 4 to 5.