

## **ALFA CAPITAL HOLDINGS (CYPRUS) LTD**

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

**As at 31 December 2008**

## General Notes:

- The following disclosures are made in reference to Alfa Capital Holdings (Cyprus) Limited (ACC) and its subsidiaries (together known as “the Group”), namely NRGF Holdings (Cyprus) Limited, Alfa Capital Russia and Emerging Markets Equity SPC, and OOO Alfa Capital Ukraine.
- The disclosures are based on the audited accounts of Alfa Capital Holdings (Cyprus) Ltd (herein referred to as “ACC” or “the Company”) and the un-audited consolidated results of its subsidiaries (for which consolidation is required under Directive DI144-2007-05, Chapter 2) for the year ended 31 December 2008, together referred to as the “Group”. It should also be noted that the financial accounts of the subsidiaries used for consolidation purposes are un-audited.
- The information contained within the disclosures has been prepared for the purpose of explaining how the Group has prepared and disclosed certain capital requirements and how risks are managed with respect to such requirements, and for no other purposes. The disclosures do not constitute financial statements on the business.
- The disclosures have been reviewed by senior management.
- The disclosures have been verified by the company’s external auditor
- The Group does not undertake any securitisation activity.



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# 1 Scope of Application

## 1.1 Policy Statement

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

## 1.2 Governing Law

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

## 1.3 Background

ACC is a member of the Alfa Group Consortium which includes a variety of companies with interests in oil and gas, commercial and investment banking, asset management, insurance, retail trade, telecommunications, media as well as other industrial trade and special situation investments.

ACC's parent company is ABH Financial Limited which holds 80% of the Company's shares while the remaining shareholding belongs to Alfa Bank Russia. The Company is itself a parent to a number of subsidiaries, listed in Table 1 below, which it controls both directly and indirectly, as well as Alfa Capital Markets ("ACM") which is the Company's London based branch.

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

There are no current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among ACC and its subsidiaries.

## 1.4 Consolidated Results

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

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

**Table - consolidation for accounting and regulatory purposes**

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

## 2 Capital Base

### 2.1 Regulatory Capital

The Group's regulatory capital base consists of the following items:

- Original Own Funds (Tier 1) includes, share capital, share premium, reserves (excluding revaluation reserves), the profits and losses brought forward as a result of the application of the final profit or loss, as well as interim profits provided these profits have been verified by the external auditors. Intangible assets (goodwill) are deducted when deriving Original Own Funds.
- Additional own funds (Tier 2) comprise of the revaluation reserve of fixed assets.

The table below presents the Group's capital base as at the 31 December 2008.

**Table - the Group's capital base**

	Year ended 31/12/2008
<b>Original Own Funds</b>	<b>USD'000</b>
Share Capital	6 017
Share Premium	173 997
Fair value reserve for investment available for sale	0
Cumulative translation reserve	476
Other Reserves	0
Retained Profits	155 486
<b>Total original Own Funds</b>	<b>335 976</b>
Less: Intangible Assets	7 791
Total original own funds	180 008
Additional Own Funds	328 185
Revaluation Reserve	0
Total Additional Own Funds	0
<b>Total Eligible Own Funds</b>	<b>328 185</b>

## 3 Risk and Capital Management

### 3.1 Responsibility for the management of risks

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

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

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

On an ongoing basis, Senior Management, together with the Risk Manager, will:

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

### **3.2 Internal Capital Adequacy Assessment Process (ICAAP)**

The Group is currently in the process of preparing its ICAAP document whereby the minimum capital requirements are determined using the Pillar 1 methodology, and subsequently adds extra capital for those risks which are either not covered, or which are partially covered, by Pillar 1.

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

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

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



## 4 Capital Requirements

The Group follows the Standardised Approach for the measurement of Pillar 1 Capital requirements for Credit and Market Risk and the Basic Indicator Approach for the management of Operational Risk. The capital deemed necessary for the Group as at 31 December 2008 is shown in the table below:

**Table – Pillar 1 Capital requirements for Credit, Market and Operational Risk as at 31 December 2008**

Risk Category	Pillar 1 Capital Requirement
	<b>USD '000</b>
<b>Credit and Counterparty Credit Risk*</b>	<b>46 849</b>
<b>Market Risk</b>	<b>16 433</b>
<b>Operational Risk</b>	<b>11 692</b>
<b>Total Requirements</b>	<b>74 974</b>

\*Inclusive of capital requirements for settlement risk

## **5 Credit and Counterparty Credit Risk**

### **5.1 Definition**

Credit Risk is defined as the potential that a counterparty or client will fail to meet their obligations, in accordance with the agreed terms, when they become due. The Group identifies and monitors as part of Credit Risk, counterparty credit risk and geographical risk.

### **5.2 Management of Credit and Counterparty Credit Risk**

The management of Credit Risk, including Counterparty Credit Risk is the primary responsibility of the Risk Management Department, with Senior Management assuming a supervisory role in the process. The Risk Management Department together with Senior Management are responsible for establishing policies and procedures which identify, analyse, evaluate, treat and monitor risk during the course of business, as well as mitigating risk, establishing limits, and performing credit assessment of clients and counterparties.

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

### **5.3 Credit Risk Mitigation**

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

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

The use of limits for managing Credit Risk and Counterparty Credit Risk helps manage the Group's exposure to Credit Risk and Counterparty Credit Risk. Counterparty exposure limits

are also set for each counterparty type collectively. Utilisation of limits takes the market value of each transaction as any potential future fluctuations.

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

#### 5.4 Credit Risk Measurement

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

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

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

Asset Class	Value of Exposure before credit risk mitigation	Provisions	Average Exposures
Government	832	0	17 040
Institutions	1 100 883	0	447 908
Corporates	358 553	0	545 314
Others	626	0	635
<b>Total Exposures</b>	<b>1 460 894</b>	<b>0</b>	<b>1 010 897</b>

It should be noted that the above average exposure calculations relate to the period as of when the new Capital Requirements Directive was released.

## Counterparty Credit Risk

As previously mentioned, counterparty credit risk is currently managed under Credit Risk, however the Group is currently undergoing the process of enhancing its current Credit Risk Policy document to include its existing methodology for handling wrong-way risks as well as the methods used for the establishing credit reserves.

## Measurement of Counterparty Credit Risk

The Group has adopted the Mark-to-Market (“MTM”) method to calculate the value of such off-balance sheet exposures. The MTM method which is followed is described within the two steps below:

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

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

**Table – counterparty credit risk table**

Type of Derivative	Gross positive fair value of contracts	Netting benefits	Netted credit exposure	Collateral held	Net derivatives credit exposure
	USD'000	USD'000	USD'000	USD'000	USD'000
Interest rate Swaps	140 386	0	140 386	0	140 386
FX contract	254 924	0	254 924	0	254 924
Securities contracts	70 301	0	70 301	0	70 301

The Group only has one Credit Derivative with notional value 10 Million USD which it sold for investment purposes.

## 5.5 Value of Exposures

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation available-for-sale financial assets, financial instruments categorised as at fair value through profit or loss and all derivative contracts.

Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

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

Fair value is defined as the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available.

## 5.6 Past due and Impaired

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Company considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the Company obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there are significant changes in the borrower’s management structure which can cause late payment 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 borrower (pledger, underwriter), arrest or seizure of the borrower’s (pledger’s, underwriter’s) property including property pledged with the Group;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- any encumbrance of the borrower’s property (pledge, rent, trust management, etc.) without the Group’s written approval;
- total loss of collateralized property;
- disablement or death of the borrower (pledger, underwriter) or business owner (more than 50% share capital);
- change of the borrower’s (pledger’s, underwriter’s) or business owner’s (more than 50% share capital) place of residence and/or place of work without written notice sent to the Group;
- there is trustworthy information that the borrower (pledger, underwriter) or business owner (more than 50% share capital) is missing or went abroad for more than 1 year;
- the borrower (pledger, underwriter) or business owner (more than 50% share capital) is imprisoned or arrested; or

- termination or change of the borrower's commercial activity without written notice sent to the Group.

As per IFRS7 Appendix A 'Defined terms': A financial asset is past due when a counterparty has failed to make a payment when contractually due.

During the year the Company's impairments on assets held as Investments Available for Sale were 6 775 thousand USD. The Company did not have any past due items.

It should also be noted that during the year the Company did not make any provisions.

### 5.7 Exposures by Geographical locations

<i>In thousands of US Dollars</i>	Russia	Europe	Other	Total
OTHER	170	192	264	626
GOVERNMENT	546	286	0	832
INSTITUTIONS	736 012	363 415	1 456	1 100 883
CORPORATES	348 090	6 589	3 874	358 553
<b>Total assets</b>	<b>1 084 818</b>	<b>370 482</b>	<b>5 594</b>	<b>1 460 894</b>

### 5.8 Exposures by residual maturity

<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
OTHER	626	0	0	0	0	626
GOVERNMENT	730	102	0	0	0	832
INSTITUTIONS	515 060	350 381	189 415	31 305	14 722	1 100 883
CORPORATES	110 970	10 062	105 410	132 111	0	358 553
<b>Total assets</b>	<b>627 386</b>	<b>360 545</b>	<b>294 825</b>	<b>163 416</b>	<b>14 722</b>	<b>1 460 894</b>

### 5.9 Exposures by significant Industry

<i>In thousands of US Dollars</i>	Banking	Finance	Oil and Gas	Other	Total
CORPORATES	95 287	163 552	78 456	21 258	358 553
INSTITUTIONS	1 100 883	0	0	0	1 100 883
OTHER	0	0	0	626	626
GOVERNMENT	1 740	-908	0	0	832
<b>Grand Total</b>	<b>1 197 910</b>	<b>162 644</b>	<b>78 456</b>	<b>21 884</b>	<b>1 460 894</b>

### 5.10 Nominated External Credit Assessment Institutions for the application of the standardised Approach

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

(000) USD	CORPORATES	INSTITUTIONS	OTHER	GOVERNMENT	Total
CQS	Final Exposure	Final Exposure	Final Exposure	Final Exposure	Total Final Exposure
1	3 742	1 091 345	1	832	1 095 920
2	2 305	8 817			11 122
3	67 530			42 680	110 210
4	287 509	316	625	-42 680	245 770
5	54 310	405			54 715
6	-56 843				-56 843
<b>Total</b>	<b>358 553</b>	<b>1 100 883</b>	<b>626</b>	<b>832</b>	<b>1 460 894</b>

Please note that during this disclosure period the Company did not undertake any credit risk mitigation, as such the pre and post exposure figures are the same.



## **6 Market Risk**

### **6.1 Definition**

Market Risk is defined as the risk of financial loss as a result of changes in market factors which reduce the Market Value (“MV”) of the trade portfolio financial instruments as well as foreign currency rates. The Group’s market risk arises from open positions in currency, price and interest rate risk, all of which are exposed to general and specific market movements and for this reason as part of market risk the Group also manages these three types of risks. In addition the Market Risk department also manages liquidity risk

### **6.2 Management of Market Risk**

Senior management and RM are responsible for:

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

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

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

### **6.3 Market Risk Management – Trading Book**

Market Risk is carefully managed through detailed polices and procedures. Senior Management will undertake an annual review of limits, based on discussions and

recommendations received by the Risk Management Department. For any proposed changes in limits, the existing limits should be submitted, as well as the new limit proposals. Reasons for any changes or amendments should be explained.

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

- **Foreign Exchange Risk:**

- *Net open position against local currency* - This is the net long or short foreign currency position.
- *Total Net Short Position* - This is the net short position of all currencies.
- *Net Open position by currency* - This is the net market value of positions in each currency, expressed in the local currency.
- *Maximum Maturity* - Maximum Maturity of the transaction calculated from deal date
- *Counterparty Limits* - Utilization of exposures for counterparty limits take into account the market value of the transaction.
- *FX Settlement Limits* - This limit captures the settlement risk of FX transactions. It is set in order not to be over exposed to a particular counterparty.

- **Market risk arising from Bond Securities, Bond Futures, Interest Rate Futures, Interest Rate Swaps, Credit Default Swaps:**

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

- **Market Risk arising form equity positions:**

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

#### 6.4 Market Risk Management – Banking Book

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

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

#### 6.5 Interest Rate Risk in the Banking Book

Interest rate risk is one of the most important risks within the Banking book. Despite the fact that the Company does not have a large number of long term interest bearing assets, management of the Group still closely monitors interest rate fluctuations on a continuous basis, and frequently performs a detailed analysis of the Group's asset and liability structure by re-pricing date. Interest rate risk is also monitored by measuring the sensitivity of net interest income over a 12 month period, to changes in the interest rate level; indeed sensitivity tests most commonly measure the effect on net interest income and economic value. The Group's management has so far carried out a net interest sensitivity analysis/gap analysis, by shocking interest rates by +/-100bps. The results are summarised in the table below:

**Table - Net Interest Sensitivity analysis\***

Shock Scenario	Variation in earnings
- 100bp	<b>798 000</b>
+100bp	<b>-798 000</b>

*\* It should be noted that the Net Interest Sensitivity analysis contained within this table is only representative of the Company's figures given that the exposure its subsidiaries have to Interest Rate Risk is immaterial.*

## 6.6 Market Risk Measurement

The minimum capital requirement with respect to market risk is calculated using the Standardised Approach. Under the standardised approach the market risk capital requirements are calculated with respect to position risk and foreign exchange risk. As at 31 December 2008, the consolidated capital requirements are as follows:

**Table – Capital requirements**

<b>Market Risk</b>			
<b>Position Risk</b>		<b>USD'000</b>	<b>USD'000</b>
Traded Debt Instruments			
	Specific Risk		
	General Risk		<b>414</b>
Equity Risk			
	Specific Risk		<b>449</b>
	General Risk		<b>898</b>
<b>Foreign Exchange Risk</b>			<b>14 672</b>
<b>Total Market Risk Capital Requirement</b>			<b>16 433</b>

## 6.7 Exposures in equity securities not included in the Trading Book

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

### Investments in Group Companies

During the year 2008, the Company had the following investments in companies within the Alfa Bank Group.

	<b>31 December 2008</b>	<b>31 December 2007</b>
<b>Group Companies</b>	USD'000	USD'000
OJSC Alfa –Bank (Russian Federation, 0.17%)	27 944	27 944
Alfa Capital LLC (Ukraine, 100.00%)	3 000	3 000
Alfa-Trust AO (Russia Federation, 100.00%)	1 405	1 405
Alfa-Direct Service (Russian Federation, 100.00%)	-	853
Other	20	28
Impairments	(25 308)	(25 308)
<b>Total Investments</b>	<b>7 061</b>	<b>7 922</b>

The numbers quoted above are carried at their cost of investment less impairment. The investment in OJSC Alfa Bank represents the cost of acquisition of 0.17% interest in OJSC Alfa Bank's share capital. The acquisition of the interest in OJSC Alfa Bank was a management decision. The disposal of Alfa Direct Service was due to the fact that this service was a non –profile asset for the company. The decrease from total from 2007 to 2008 in the *Other* item can be attributed to the disposal of companies that the company had interest in.

#### Investments in Associates

As at 31 December 2008, the Group does not have investments in associated companies since during 2008, the Company disposed the shares in Amtel – Vredestein N.V. by executing an option with ABH Financial Limited. As at the date of origination the option was out of the money and had a negligible fair value.

However the Company incurred a gain on the disposal of investments in Group Companies of 7,000 USD

#### Financial Assets 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 which investments available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gains or loss is removed from equity to profit or loss.

As at 31 December 2008 the Company's principal investments available for sale are as follows:

Name	Nature of Business	Country of Registration	Fair Value of Investments as at 31 December 2008
			USD '000
Participating Shares in investments funds managed by the Group	Investments	Russia/Cayman Islands	7 570
Other	Investments	Russia	91
<b>Total Investments</b>			<b>7 661</b>

Specifically the movement in the investments available for sale were as follows:

	31 December 2008	31 December 2007
	USD'000	USD'000
Carrying Value as at 1 January	14 089	21 544
Acquisitions of investments available for sale	6 426	3 800
Proceeds from disposal of investments available for sale	(3 553)	(13 859)
Gains less losses arising from investments available for sale	1 659	8 859
Impairments of investments available for sale	(6 775)	-
Movement in fair value reserves for investments available for sale	(4 185)	(6 255)
<b>Total Investments available for sale as at 31 December 2008</b>	<b>7 661</b>	<b>14 089</b>

It should be noted that the Company's gain arising from investments available for sale is equal to \$1,659 (to the nearest thousand).

## **7 Operational Risk**

### **7.1 Introduction**

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

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

### **7.2 Management of Operational Risk**

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

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

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

### **7.3 Assessment of Operational Risk**

The Company adopts the Basic Indicator Approach ("BIA") to Operational Risk, the relevant indicator being the three year average of the sum of net income. The three year average is calculated on the basis of the last three twelve-monthly observations at the end of the

financial year. Under the BIA, capital is held to support Operational Risk for the business at the rate of 15%.

**Table – Operational Risk**

<b>Operational Risk</b>	<b>Average Sum of Net Income</b>	<b>Capital Requirement</b>
	<b>USD '000</b>	<b>USD'000</b>
Alfa Capital Holdings (Cyprus) Ltd	75 122	11 268
NRGF	1 492	224
Alfa Capital Ukraine	1 404	211
Alfa Capital Emerging Markets	- 70	-11
<b>Total Operational Risk</b>	<b>77 948</b>	<b>11 692</b>