Alfa Capital
Holdings (Cyprus) Ltd

ALFA CAPITAL HOLDINGS (CYPRUS) LTD

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

As at 31 December 2011

General Notes:

- Alfa Capital Holdings (Cyprus) Limited (hereafter referred to as “ACC” or “the Company”) and its subsidiary Alfa Capital LLC Ukraine (together known as “the Group”), have prepared the following disclosures.
- The disclosures are based on the audited financial statements of ACC and the un-audited results of its subsidiary (for which consolidation is required under Directive DI144-2007-05 of 2011, Part A, Chapter 2) for the year ended 31 December 2011.
- The information contained within the disclosures has been prepared for the purpose of explaining how risks are managed by the Group and to disclose the capital requirement corresponding to these risks, in line with the requirements of the Cyprus Securities and Exchange Commission. 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 subsidiary.
- 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.
- All figures are stated in US Dollars. Figures are rounded to the nearest thousand except where otherwise stated.

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1 Scope of Application

1.1 Policy Statement

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

1.2 Governing Law

The information disclosed below is in accordance with Directive DI144 – 2007 – 05 of 2011 for the Capital Requirements of Investment Firms of 2010 (hereafter referred to as "the Directive") of the Cyprus Securities and Exchange Commission ("CySEC") focusing on Chapter 7 "Disclosure and Market Discipline", paragraphs 34 – 38, and Annex XII "Technical Criteria on Disclosure", of Part C.

1.3 Background

ACC is a subsidiary of the Alfa Banking Group. The Alfa Banking Group offers a wide range of products and operates in all sectors of the financial market, including corporate and retail lending, deposits, payment and account services, foreign exchange operations, cash handling services, custody services, investment banking and other ancillary services to corporate and retail customers.

ACC's parent company, ABH Financial Limited, which as of 4 April 2011 is a Cyprus registered Company, holds 30.3% of the Company's shares. The remaining 69.7% of the Company's shareholding belongs to OJSC Alfa-Bank.

The Company is itself parent to Alfa Capital LLC, Ukraine (an investment company) and it also owns Alfa Capital Markets ("ACM") which is the Company's London-based branch. The branch is an extension for corporate finance advisory and underwriting services offered by the Company to the international capital markets, and is regulated by the CySEC and the Financial Services Authority of the United Kingdom. The Group's principal activities are operations with equities, debt securities and investments, investment of surplus cash into interest earning bonds, deposits, loans and other financial instruments, as well as the provision of financial services to international clients and the Alfa Banking Group.

1.4 Consolidated Results

For accounting purposes, ACC has taken advantage of the exemption for the non-preparation of consolidated financial statements under the International Accounting Standard IAS 27 – "Consolidated and Separate Financial Statements", and does not therefore consolidate the results of its subsidiary. Instead, consolidated financial statements are prepared by ABH Financial Ltd.

The Company's wholly owned subsidiary, Alfa Capital LLC Ukraine, is exempted from consolidation for accounting purposes, based on the above IAS, while for regulatory purposes it is fully consolidated.

2 Capital Base

2.1 Regulatory Capital

The Group's regulatory capital base consists of Original Own Funds (Tier 1 capital), which includes share capital, share premium, reserves (excluding revaluation reserves) as well as the profits and losses brought forward as a result of the application of the final profit or loss, Intangible assets (such as computer accounting software) are deducted when deriving the Group's Capital Base. It is noted that as at 31 December 2011, the Company did not have any hybrid securities, nor did it have any subordinate loan capital or cumulative preferential shares that could be considered Additional Own Funds (Tier 2 capital).

The table below presents the Group's capital base as at 31 December 2011.

Group's capital base

	Year Ended 31/12/2011
Original Own Funds	USD'000
Share Capital	6,017
Share Premium	173,997
Reserves	203,573
Audited Profit for the year	67,326
Original Own Funds	**450,913**
Less: Intangible Assets	423
Capital Base	**450,490**

As at 31 December 2011, the Company's share capital comprised of 3,000,000 ordinary shares, which were issued at a premium. All ordinary shares rank equally and carry one vote.

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 recognises 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 in order to ensure that the risks faced by the Group are managed carefully, so that an optimum level of risk-return trade off is achieved.

The Group has put in place risk management systems to monitor risks. The systems are able to clearly distinguish positions between the Trading Book and Banking Book so that the regulatory capital charges are properly calculated. 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 subsidiary follow the Group's strategic objectives. In addition to this, support on risk management matters is also provided by the Alfa Bank Moscow, Risk Management department. 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 escalate any violations to Senior Management.
- Assess the Group's risk appetite and risk bearing capacity.
- Ensure that 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 subsidiary do not undertake any trading activity.
- Meet on a regular basis in order to assess the Company's position relative to the approved risk limits. Risk management within the Group is a dynamic process in the sense that Senior Management will reassess all limits set, as new information is known. Furthermore, 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 Company uses the results of its most recent ICAAP exercise as a measurement of its internal capital requirements. As part of this exercise, the minimum capital requirements were determined using the Pillar 1 methodology, and subsequently the additional capital required was calculated for those risks which are either partially covered, or not addressed under Pillar 1 at all.

The Risk Management department, in cooperation with the Accounting department, are responsible for the preparation of the ICAAP document, whilst Senior Management has the overall responsibility of approving the ICAAP document and 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.

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

4 Capital Requirements

The Group follows the Standardised Approach for the measurement of the Pillar 1 capital requirements for Credit and Market Risk, and the Basic Indicator Approach for the calculation of Operational Risk. The Pillar 1 capital requirements of the Group as at 31 December 2011 are shown in the table below:

	Pillar 1 Capital Requirement
	USD'000
Credit and Counterparty Credit Risk	48,467
Market Risk*	91,445
Operational Risk	12,935
Total	**152,847**

*Inclusive of capital requirements for position risk, commodities risk and foreign exchange risk.

5 Credit and Counterparty Credit Risk

5.1 Definition

Credit Risk is the risk that a counterparty may potentially fail to meet its obligations when they become due. The Group is exposed to Credit Risk arising from the probability that a counterparty will be unable to make payments in full when these are due. The Group identifies and monitors Counterparty Credit Risk, Concentration Risk and Geographical Risk as part of Credit Risk.

5.2 Management of Credit and Counterparty Credit Risk

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

The exposures to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily. Exposure to Credit Risk is also managed, in part, by obtaining collaterals and guarantees.

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.

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

The use of a Credit Assessment framework helps the Risk Management department mitigate such risks by analysing a client's or counterparty's credit quality based on analysis of both financial and non-financial information. In addition to this, the Risk Management department also reviews the analysis and appropriateness of the 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 risks and set appropriate limits.

The use of limits for Credit Risk and Counterparty Credit Risk contributes to the effective management of the Group's exposure to such risks. Counterparty exposure limits are also set collectively, for each counterparty type. Utilisation of limits takes the market value of each transaction as well as any potential future fluctuations.

Furthermore, the Company monitors closely portfolio concentration limits, as well as cases where limit utilisation is close to a maximum, such that the impact of new transactions on the concentration within the Company's portfolio is analogous to its risk appetite and portfolio limit structure.

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

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

	Value of Exposure before Credit Risk Mitigation	Provisions	Average Exposures
Asset Class	**USD'000**		
Sovereigns	-	-	2,923
Institutions	1,491,199	-	784,713
Corporates	854,655	-	507,063
Retail	931	-	78
Other	97,820	-	8,649
Total	**2,444,605**	**-**	**1,303,426**

The following tables present the Company's exposures to credit and dilution risk, based on the requirements of the Directive (Annex XII "Technical Criteria on Disclosures, Part 2, paragraph 6 of Part C).

5.3 Exposures by significant geographical locations

	Europe	Russia	Ukraine	Other	Grand Total
Asset Class	**USD'000**				
Institutions	1,237,415	251,771	1,925	88	1,491,199
Corporates	850,797	3,087	44	727	854,655
Retail	-	489	-	442	931
Other	97,454	30	336	-	97,820
Grand Total	**2,185,666**	**255,377**	**2,305**	**1,257**	**2,444,605**

5.4 Exposures by residual maturity

	<1 month	1-3 months	3-12 months	1-5 years	Grand Total
Asset Class	**USD'000**				
Institutions	1,110,005	24,241	305,201	51,752	1,491,199
Corporates	434,786	359,441	50,794	9,634	854,655
Retail	931	-	-	-	931
Other	97,820	-	-	-	97,820
Grand Total	**1,643,542**	**383,682**	**355,995**	**61,386**	**2,444,605**

5.5 Exposures by significant industries

	Banking	Telecom	Other	Grand Total
Asset Class	**USD'000**			
Institutions	1,480,715	9,441	1,043	1,491,199
Corporates	770,848	3,037	80,770	854,655
Retail	-	-	931	931
Other	81,112	-	16,708	97,820
Grand Total	**2,332,675**	**12,478**	**99,452**	**2,444,605**

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

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

	Credit Quality Step						Grand Total
	1	2	3	4	5	6	
Institutions	243,950	1,071,903	173,333	-	1,924	89	1,491,199
Corporates	339	697,725	73,377	4	-	83,210	854,655
Retail	-	-	-	-	-	931	931
Other	-	-	-	-	-	97,820	97,820
Total	**244,289**	**1,769,628**	**246,710**	**4**	**1,924**	**182,050**	**2,444,605**

5.7 Credit Risk Mitigation

With regards to repurchase and reverse repurchase agreements, the Company always takes on collateral in the form of cash or securities. The Company assesses the credit quality of repurchase receivables related to debt trading securities based on the credit agencies' rating of issuers.

The credit quality of repurchase receivables relating to debt trading securities as at 31 December 2011 was as follows:

Repurchase Receivables	USD'000
Standard and Poor's	
B- to BBB rated	293,231
Moody's	
A3 to Aaa rated	10,202
B3 to Baa1 rated	84,496
Total repurchase receivables relating to debt trading securities	**387,929**

Based on the collateral received for reverse repurchase and repurchase transactions, the Group's exposure value before and after credit risk mitigation are as follows:

Exposure Values before and after Credit Risk Mitigation

Credit Quality Step	Exposure Values before credit risk mitigation	Exposure Values after credit risk mitigation
	USD'000	USD'000
1	244,289	244,289
2	1,769,628	237,061
3	246,710	246,709
4	4	4
5	1,924	1,924
6	182,050	182,050
Total	**2,444,605**	**912,037**

5.8 Counterparty Credit Risk

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

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

5.9 Measurement of Counterparty Credit Risk

The Group has adopted the Mark-to-Market ("MTM") method and the Financial Collateral Comprehensive Method ("FCCM") to calculate the value of the exposures deriving from derivative transactions and repurchase/reverse repurchase transactions, respectively, which give rise to Counterparty Credit Risk.

The MTM method is described in the steps below:

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

The FCCM requires that haircuts are assigned to the values of the exposure and collateral, in order to arrive at the adjusted exposure and collateral amounts. Haircuts are determined based on the type of exposure and collateral, and are also applied for any foreign currency and maturity mismatches. Once the adjusted values of exposures and collaterals are derived, the appropriate risk weight, determined based on the counterparty to the transaction, is assigned to the unsecured part of the exposure.

5.10 Value of Exposures

The Group's financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of 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 which relies only on observable market data.
Sale and repurchase agreements are treated as secured financing transactions. The securities sold are not derecognised nor are they reclassified in the Statement of Financial Position, unless the transferee has the right by contract or custom to sell or repledge the securities. On the other hand, securities purchased under agreements to resell are recorded as "due from banks" or "loans and advances to customers", as appropriate. The obligation to return the securities is recorded at fair value in other financial liabilities.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the Group becomes a party to the contractual provisions of the instrument.

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available.

The following table summarized the gross positive fair value of contracts, netting benefits, netted current credit exposures, collateral held and net derivatives credit exposure of the Group’s derivative positions:

Type of Derivative	Gross positive fair value of contracts	Netting benefits	Netted credit exposure	Collateral held	Net derivatives credit exposure
	USD’000	**USD’000**	**USD’000**	**USD’000**	**USD’000**
Deliverable forwards	16,727	0	16,727	0	16,727
Non Deliverable forwards	109	0	109	0	109
Call Options (purchased)	1,870	0	1,870	0	1,870
Put Options (purchased)	1,924	0	1,924	0	1,924
Swaps	801	0	801	0	801
Currency Derivatives	128,295	0	128,295	0	128,295

5.11 Past due and Impaired

Past Due

As per IFRS7, Appendix A “Defined terms”, a financial asset is past due when a counterparty has failed to make a payment when contractually due. It is noted that during the year there were no past due balances within other financial assets or within investments available for sale.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised under 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 which the Company considers when deciding 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 whether 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 the borrower’s financial information obtained by the Company.
- 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 due to deteriorating market conditions.

During the year the Company had impairments amounting to US$825k, with respect to the fair value of its trading securities and repurchase receivables. It is noted that the total of US$825k represents impaired trading securities and repurchase receivables which are overdue for more than 360 days.

5.12 Value Adjustments and Provisions for impaired exposures

During the year the Company has not performed any provisions for impaired exposures. Specifically during the year the Company recovered a provision for US$1,175k which was performed during 2010 against a receivable from a Russian company.

Specifically the movement in provisions for impairment of other financial assets, as at 31 December 2011, was as follows:

	USD'000
Provision for impairment as at 1 January 2011	1,175
(Recovery of provision) / Provision of impairment during the year	(1,175)
Amounts written off during the year as uncollectible	-
Provision for impairment as at 31 December 2011	**-**

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 trading portfolio of financial instruments and foreign currencies. The Group's Market Risk arises from open positions in currency, price and interest rate risk. The Group's Market Risk department manages these risks, as well as liquidity risk.

6.2 Management of Market Risk

Senior Management and the Risk Management department 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, and setting out the permitted products and activities, as well as the maximum exposure limits.
- Performing Value at Risk (VaR) and stress testing calculations, which are two commonly used tools in finance for quantitative risk measurement and management. This allows Management to closely manage the business by ascertaining maximum losses (with given probabilities) as well as the robustness of the business in stressed situations.

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

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

6.3 Market Risk Management – Trading Book

Market Risk is carefully managed through detailed policies and procedures. Senior Management will undertake an annual review of limits, based on discussions and recommendations received by the Risk Management department. For any proposed changes in limits, the existing limits as well as the new limit proposals should be submitted. The 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 have been established and it is worth noting that the list below illustrates all the possible risk measures that the Group may apply to mitigate market risks. 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 counterparty limits taking into account the market value of the transactions.
  - *FX Settlement Limits* - This limit captures the settlement risk of FX transactions. It is set in order to control the exposure to a particular counterparty.

- **Market Risk arising from Bond Securities, Bond Futures, Interest Rate Futures, Interest Rate Swaps, Credit Default Swaps:**
  - *Position Limits* - This is the maximum allowable exposure for each specific instrument within a specific portfolio. Different limits may be set for intra-day and overnight positions.
  - *Maximum Holding Period Limit* - The maximum period the trader can hold a position.

- *Maximum Maturity* - Maximum maturity of the transaction calculated from deal date.
- *Counterparty Exposure Limits* - Limits are set for each counterparty collectively. Utilization of exposure limits takes into account the market value of the deal, as well as the future fluctuation in its value.

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

6.4 Market Risk Management – Banking Book

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

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

6.5 Interest Rate Risk in the Banking Book

Interest Rate Risk is defined by the Company as the risk that movements in interest rates will have an adverse effect on the Company's income or the value of its portfolios of financial instruments. Despite the fact that the Company does not have significant long-term interest bearing assets, the Management of the Company closely monitors interest rate fluctuations on a continuous basis, and frequently performs a detailed analysis of the Company's asset and liability structure by re-pricing date. Interest Rate Risk is also monitored by measuring the sensitivity of net interest income over a 12-month period to changes in the interest rate levels. 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:

Shock Scenario	Variation in earnings (USD'000)*
- 100bp	- 1,291
+100bp	+ 1,291

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

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, Commodities Risk and Foreign Exchange Risk.

As at 31 December 2011 the consolidated capital requirements are as follows:

Market Risk			
Position Risk		**USD'000**	**USD'000**
Traded Debt Instruments			
	Specific Risk	31,710	
	General Risk	13,605	**45,315**
Equity Risk			
	Specific Risk	2,931	
	General Risk	5,863	**8,794**
Commodities Risk			**0**
Foreign Exchange Risk			**37,336**
Total Market Risk Capital Requirement			**91,445**

6.7 Exposures in Equity securities not included in the Trading Book

Under this category the Company includes equity 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 2011, the Company had the following investments in companies within the Alfa Banking Group.

	31 December 2011	31 December 2010
Group Companies	USD’000	USD’000
OJSC Alfa-Bank (Russian Federation, 0.1136%)	27,964	27,964
Alfa Capital LLC (Ukraine, 100.00%)	3,000	3,000
Impairments	(25,308)	(25,308)
Total Investments	**5,656**	**5,656**

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

Investments in Associates

As at 31 December 2011, the Group did not have investments in associated companies.

Investments Available for Sale

This classification includes investment securities which the Company intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Company classifies investments as available for sale at the time of purchase.

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

As at 31 December 2011 the Company's principal investments available for sale were represented by participating shares in investment funds domiciled in Russian. Specifically the movement in the investments available for sale were as follows:

Investments Available for Sale	**31 December 2011**	**31 December 2010**
	USD'000	**USD'000**
Carrying Value as at 1 January	1,712	7,058
Disposals	(1,619)	(5,616)
Movement in fair value reserves	(93)	270
Total Investments available for sale as at 31 December	**-**	**1,712**

Numbers are represented to the nearest thousand.

7 Operational Risk

7.1 Introduction

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

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

7.2 **Management of Operational Risk**

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

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

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

7.3 Assessment of Operational Risk

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

Operational Risk	Average Sum of Net Income	Capital Requirement
	USD '000	**USD'000**
Alfa Capital Holdings (Cyprus) Limited and Alfa Capital Ukraine	86,231	12,935
Total	**86,231**	**12,935**