Translation from original Russian version

International Investment Bank

Financial Statements

Year ended 31 December 2009
Together with Independent Auditors' Report

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Translation from original Russian version

Independent auditors' report

To the Council of the International Investment Bank

We have audited the accompanying financial statements of International Investment Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2009, and the income statement, statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 financial statements present fairly, in all material respects, the financial position of International Investment Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

19 March 2010

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

(Thousands of Euros)

	Note	*2009*	*2008*
Assets			
Cash and cash equivalents	4	7,394	6,876
Deposits with banks and other financial institutions	5	132,277	105,924
Financial instruments at fair value through profit or loss			
- *Combined financial instruments*	6	13,757	21,324
Available-for-sale investment securities:			
- *Owned by the Bank*	7	30,989	19,812
- *Pledged under repurchase agreements*	7	–	14,553
Loans to customers	9	75,891	99,192
Held-to-maturity investment securities	8	377	381
Investment property	10	15,667	16,087
Property and equipment	11	23,105	22,840
Other assets	12	1,491	1,164
Total assets		**300,948**	**308,153**
Liabilities			
Due from banks and other financial institutions	13	58	9,894
Current customer accounts		2,425	2,835
Financial instruments at fair value through profit or loss:			
- *Financial instruments held for trading*	6	21	68,263
- *Combined financial instruments*	6	–	2,000
Other liabilities	12	4,991	5,694
Total liabilities		**7,495**	**88,686**
Equity	14		
Subscribed capital		1,300,000	1,300,000
Callable capital		(1,085,505)	(1,085,505)
Paid-in capital		**214,495**	**214,495**
Revaluation reserve for available-for-sale investment securities		3,951	(9,748)
Retained earnings at the beginning of the year		14,720	125,934
Net income/(loss) for the year		60,287	(111,214)
Total equity		**293,453**	**219,467**
Total equity and liabilities		**300,948**	**308,153**

Signed and authorized for release on behalf of the Board of the Bank

Vasily V. Kirpichev — Chairman of the Board

Malika S. Kornukaeva — Acting Managing Director of the Financial Office

19 March 2010

The accompanying notes are an integral part of these financial statements.

INCOME STATEMENT

For the year ended 31 December 2009

(Thousands of Euros)

	Note	*2009*	*2008*
Interest income	18	14,861	15,542
Interest expense	18	(71)	(379)
Net interest income		**14,790**	**15,163**
Fee and commission income		334	767
Fee and commission expense		(86)	(124)
Net fee and commission income		**248**	**643**
Net (losses)/gains from foreign currencies	19	(3,996)	1,205
Net gains/ (losses) from financial instruments at fair value through profit or loss			
- Financial instruments held for trading	6	65,018	(70,085)
- Coupon income from combined financial instruments		4,625	6,610
- Net gains/ (losses) from combined financial instruments	6	25,318	(46,229)
Net gains/ (losses) from available-for-sale investment securities		2,470	(722)
Income from lease of investment property		6,201	5,825
Other income		59	135
Net non-interest income/(loss)		**99,695**	**(103,261)**
Operating income/(loss)		**114,733**	**(87,455)**
Provsion for loan impairment	9	(43,074)	(9,034)
General and administrative expenses	20	(10,944)	(12,469)
Other operating expenses arising from banking transactions		(428)	(2,256)
Operating expense		**(54,446)**	**(23,759)**
Net income/(loss) for the year		**60,287**	**(111,214)**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

(Thousands of Euros)

	2009	*2008*
Net income/(loss) for the year	**60,287**	**(111,214)**
Other comprehensive income/(loss)		
Net gains/(losses) on revaluation of available-for-sale investment securities	13,699	(8,954)
Total other comprehensive income/(loss)	**13,699**	**(8,954)**
Total comprehensive income/(loss)	**73,986**	**(120,168)**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009
(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Available-for-sale reserve*	*Retained earnings*	*Total equity*
Balance at 31 December 2007	**1,300,000**	**(1,085,505)**	**(794)**	**125,934**	**339,635**
Total comprehensive loss	–	–	(8,954)	**(111,214)**	(120,168)
Balance at 31 December 2008	**1,300,000**	**(1,085,505)**	**(9,748)**	**14,720**	**219,467**
Total comprehensive income	–	–	13,699	60,287	73,986
Balance at 31 December 2009	**1,300,000**	**(1,085,505)**	**3,951**	**75,007**	**293,453**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

(Thousands of Euros)

	Note	*2009*	*2008*
Cash flows from operating activities			
Interest, fees and commissions received		12,684	11,476
Interest, fees and commissions paid		(191)	(480)
Net receipts from trading in foreign currencies		(184)	625
General and administrative expenses		(8,844)	(9,959)
Other operating expenses arising from banking transactions		(429)	(2,256)
Net receipts /(payments) from available-for-sale investment securities		2,375	(722)
Cash flows from lease of investment properties		6,201	5,825
Cash flows from operating activities before changes in operating assets and liabilities		**11,612**	**4,509**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		(34,219)	53,420
Financial instruments held for trading		(30)	2,960
Combined financial instruments		35,641	4,594
Available-for-sale investment securities		16,672	(22,358)
Loans to customers		(16,220)	(52,770)
Other assets		(236)	(281)
Net increase /(decrease) in operating liabilities			
Due from banks and other financial institutions		(10,492)	10,114
Current customer accounts		(416)	(1,396)
Other liabilities		(551)	285
Net cash flows from operating activities		**1,761**	**(923)**
Cash flows from investing activities			
Net acquisition of investment property and property and equipment		(1,891)	(1,165)
Net cash flows from investing activities		**(1,891)**	**(1,165)**
Effect of exchange rates changes on cash and cash equivalents		648	(1,787)
Net increase in cash and cash equivalents		**518**	**(3,875)**
Cash and cash equivalents, beginning		**6,876**	**10,751**
Cash and cash equivalents, ending	4	**7,394**	**6,876**

The accompanying notes are an integral part of these financial statements.

(Thousands of Euros)

1. Principal activities

The International Investment Bank (the "Bank") was founded in 1970 and has operated since 1 January 1971.

The Bank is an international institution operating on the basis of the Intergovernmental Agreement on the Establishment of the International Investment Bank (the Agreement) and the Statutes. The Agreement was ratified by the member countries of the Bank and registered with the Secretariat of the United Nations in December 1971. The Bank is primarily engaged in commercial lending for the benefit of national investment projects in the member countries of the Bank and for other purposes defined by the Council of the Bank. The Bank also performs transactions with securities and foreign currency. The Bank operates from its office at 7 Mashi Poryvaevoi St., Moscow, Russia.

In 2009, the average number of employees of the Bank was 194 (2008 - 198).

Member countries of the Bank

The member countries of the Bank include:

Member countries	*2009* %	*2008* %
Russian Federation	44.704	44.704
Republic of Poland*	13.590	13.590
Czech Republic	9.697	9.697
Republic of Bulgaria	9.526	9.526
Republic of Hungary*	9.369	9.369
Romania	5.892	5.892
Slovak Republic	4.849	4.849
Republic of Cuba	1.711	1.711
Mongolia	0.335	0.335
Socialist Republic of Vietnam	0.327	0.327
	100.000	**100.000**

* Republic of Hungary and Republic of Poland announced withdrawal from membership in the Bank in 1999 and 2000, respectively, and are no longer full members of the Bank. The Bank is in the process of negotiating mutual obligations with these countries.

In accordance with the Agreement, each member country of the Bank may withdraw from membership upon notice to the Council of the Bank at least six months in advance. In this case the Bank must discharge all obligations to the relevant member country.

The member countries of the Bank may vote at the annual and general meetings of the Council and each member country has one vote regardless of the size of its contribution to the Bank's capital.

Conditions of the Bank's financial and business operations in the member countries

In accordance with the Agreement, the Bank's assets, regardless of location, have immunity from any administrative or judicial interference.

In the member countries, the Bank is not subject to taxation and enjoys all privileges available to diplomatic representations.

The bank is not subject to regulation by the central banks of the member countries, including the country of residence.

Business environment in the member countries

The member countries have experienced political and economic change, which has affected, and may continue to affect, the activities of enterprises operating in these countries. Consequently, operations in some member countries involve risks, which do not typically exist in developed markets.

The accompanying financial statements reflect the management's assessment of the impact of the member countries' business environment on the results of operations and financial position of the Bank. Future evolution of the conditions in which the Bank operates may differ with the assessment made by the management for the purposes of these financial statements.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (the "IASB").

These financial statements are presented in thousands of Euros ("Thousands of Euros "), unless it is indicated otherwise.

Basis of measurement

These financial statements have been prepared under the historical cost convention except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value.

Preparation and presentation of financial statements

In accordance with the Statutes of the Bank, the financial year begins on 1 January and ends on 31 December.

Functional and presentation currency

The management has determined the Bank's functional and presentation currency to be the EURO ("EUR") as it reflects the economic substance of the underlying operations conducted by the Bank and circumstances affecting its operations, because most financial assets and financial liabilities as well as income and expenses of the Bank are denominated in EUR.

Use of estimates and judgments

Management makes a number of estimates and assumptions, which affect the reporting of assets and liabilities and the carrying value of assets and liabilities in the next financial year. Estimates and assumptions are continuously assessed and are based on the management experience and other factors, including expectations of future events, and are reasonable under the circumstances. In addition, management relies on judgments and assessments in applying the accounting policies. Most significant judgments, which affect the amounts recorded in the financial statements, and estimates, which may result in significant adjustment of the carrying value of assets and liabilities in the next financial year are presented below:

Allowance for loan impairment. The Bank regularly reviews its loans to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows from a loan. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or national or local economic conditions that correlate with defaults on liabilities. Impairment loss may be reversed only if a subsequent increase can be objectively related to an event occurring after the impairment loss was recognized. For uncollectible debt, the Bank makes provision in the amount equal to 100% of the amount of debt. Loans are written off at the decision of the Council of the Bank when no economic benefits are expected from them. Loans are recorded on the balance sheet less allowances for impairment.

Fair values 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 the market price. The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The fair value of derivative financial instruments that are not quoted in an active market is determined using valuation methodologies. To the extent it is applicable, the models use only available information, but certain areas require management estimates. Change in the assessment of these factors may affect fair value reflected in the financial statements. 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.

(Thousands of Euros)

2. Basis of preparation (continued)

Use of estimates and judgments (continued)

Capital adequacy ratio. Capital adequacy ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) (or Basel Capital Accord) requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the capital adequacy ratio requires management judgment, for example, treatment of off-balance sheet commitments.

Impairment of equity securities available for sale. The Bank determines that available-for-sale equity investment securities available for sale are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating or financing cash flows.

In particular, information on significant areas of estimation uncertainty and critical judgments in applying accounting policies is the following notes:

- Note 6: Financial instruments at fair value through profit or loss
- Note 7: Available for sale investment securities
- Note 8: Held-to-maturity investment securities
- Note 9: Loans to customers
- Note 15: Contingencies and lending commitments

3. Summary of accounting policies

The accounting policies adopted are consistent with those used in the previous financial year except for the following:

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

IAS 1, Presentation of Financial Statements (Revised)
A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has retrospectively applied changes in accounting policies, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in two separate statements: income statement and statement of comprehensive income. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the financial statements.

IFRS 7, Financial Instruments: Disclosures
The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has been provided although the transition provisions of the amendment do not require that comparative information be provided.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IAS 24, Related party disclosures (Revised)
The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank has decided to early adopt the revised IAS 24 from 1 January 2009.

Standards and interpretations issued but not yet effective

Standards and interpretations issued but not yet effective

Amendment to IAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items
The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Bank's financial statements as the Bank has not entered into any such hedges.

IFRS 3, Business Combinations (revised in January 2008), and IAS 27, Consolidated and Separate Financial Statements (revised in January 2008)
The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by a subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised IFRS 3 and IAS 27 must be applied prospectively and will affect only future acquisitions and transactions with minority interests.

IFRS 2, Share-based Payment: Group Cash-settled Share-based Payment Transactions
The amendment to IFRS 2 was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners
IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Bank expects that this Interpretation will have no impact on the Bank's financial statements.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Improvements to IFRS
In April 2009, the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in the April 2009 Improvements to IFRS will have no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Bank expects that this amendment will have no impact on the Bank's financial statements.
- *IAS 7 Statement of Cash Flows* explicitly states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities. The Bank expects that this amendment will have no impact on the Bank's financial statements.
- *IAS 36 Impairment of Assets* clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Bank as the annual impairment test is performed before aggregation.

Amendments to IAS 32, Financial instruments: Presentation: Classification of Rights Issues
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given *pro rata* to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The bank expects that this amendment will have no impact on the Bank.

IFRS 9, Financial Instruments
In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace *IAS 39 Financial Instrument: Recognition and Measurement*. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

Foreign currency transactions

For the purposes of these financial statements, any currency other than the Euro is treated as a foreign currency. Foreign currency transactions are recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to the functional currency at the exchange rate ruling at the date of the initial transaction. Non-monetary assets and liabilities that are recorded at fair value in a foreign currency are translated to the euro at the exchange rate ruling at the date when their fair value was measured. All translation differences resulting from the application of exchange rates are taken to the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and Nostro accounts due from banks and other financial institutions which mature within ninety days from the origination date and are free from contractual encumbrances.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial instruments

Classification of financial instruments

Financial instruments at fair value through profit or loss are those financial assets and liabilities that are:

- Acquired or incurred principally for the purpose of selling or repurchasing in the near term
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking
- Derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments)

Or

- Upon initial recognition, are designated by the Bank as at fair value through profit or loss

The Bank designates financial assets and liabilities at fair value through profit or loss if:

- The assets or liabilities are managed and evaluated on a fair value basis
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise

Or

- The asset or liability is a combined financial instrument, i.e., contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract

All derivative financial instruments held for trading that are in a net receivable position (positive fair value) as well as option contracts acquired are reported as assets. All derivative financial instruments held for trading that are in a net payable position (negative fair value) as well as option contracts issued are reported as liabilities.

An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognized in profit or loss for the period. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Financial assets and liabilities at fair value through profit or loss are not reclassified upon initial recognition.

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Loans and accounts receivable that the Bank intends to sell immediately or in the near term
- Loans and accounts receivable that the Bank designates as at fair value through profit or loss upon initial recognition
- Loans and accounts receivable that are designated as available for sale upon initial recognition

Or

- Loans and accounts receivable for which the Bank may not substantially recover all of its initial investment, other than because of credit deterioration

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than:

- Held-to-maturity financial assets that the Bank designates as at fair value through profit or loss upon initial recognition
- Held-to-maturity financial assets that the Bank designates as available for sale upon initial recognition

Or

- Held-to-maturity financial assets that meet the definition of loans and accounts receivable

Available-for-sale financial assets are financial assets that are designated as available for sale or are not classified as loans and accounts receivable, held-to-maturity financial assets or financial instruments at fair value through profit or loss.

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Recognition

Financial assets and liabilities are recorded on the balance sheet when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized in the separate financial statements on the settlement date.

Measurement

A financial asset or liability is initially measured at fair value, plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are classified as assets, are measured at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- Loans and accounts receivable which are measured at amortized cost using the effective interest method
- Held-to-maturity financial assets which are measured at amortized cost using the effective interest method
- Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and that are measured in terms of historical cost

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortized cost. Amortized cost is calculated based on the yield to maturity using the effective interest rate method; Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the yield to maturity using the effective interest rate method.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. For the purposes of measuring fair values of financial assets and financial liabilities, the current market price of the buyer or the seller to measure recorded financial assets or recorded financial liabilities, respectively. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

For derivative financial instruments that are not quoted, fair value is calculated as the amount that the Bank would receive or pay upon termination of the contract at the balance sheet date as adjusted for market conditions and the creditworthiness of the counterparty.

Gains and losses on subsequent remeasurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- A gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement
- A gain or loss on an available-for-sale financial asset is recognized directly in equity (except for impairment losses and gains and losses on revaluation of financial assets and liabilities denominated in a foreign currency) until the asset is derecognized, at which time cumulative gain or loss previously recognized in equity is taken to the corresponding items of the income statement.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the income statement when the financial asset or liability is derecognized or impaired, or through the amortization process using the effective interest method.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. In this case the level of the Bank's continuing involvement is limited by the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are treated as secured financing transactions and are classified in the balance sheet as securities pledged under sale and repurchase agreements; the counterparty liability is included in accounts and deposits of banks and other financial institution or current customer accounts, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in the income statement over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repo") are recorded as deposits with banks and other financial institutions or loans issued less allowance for impairment, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in the income statement over the term of the repo agreement using the effective interest method.

Investment property

Investment property is property that is not used in the Bank's operations and is held by the Bank to earn rentals under operating lease or yield from an increase in its fair value. Investment property is carried at cost, less accumulated depreciation and any accumulated impairment.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Investment property

Depreciation of property under operating lease is charged to the income statement on a straight-line basis over the estimated useful lives of individual assets from the date when such assets become available for use. The useful life of buildings is 50 years.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and any accumulated impairment.

The carrying value of property and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation

Depreciation of property and equipment (including self-constructed property and equipment) is charged to the income statement on a straight-line basis over their estimated useful lives from the date when property and equipment become available for use. Land is not depreciated. The useful lives are as follows:

	Years
Buildings	50
Equipment	3-7
Computers	3-6
Office furniture	5-10
Vehicles	4

Intangible assets

Intangible assets acquired by the Bank are carried at cost, less accumulated amortization and any accumulated impairment.

Amortization

Amortization of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets.

	Years
Software	3

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial assets carried at amortized cost

For deposits with banks and other financial institutions, held-to-maturity securities, loans issued that are carried at amortized cost the Bank assesses individually whether objective evidence of impairment exists for financial assets. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If earlier write-offs are later reversed, such reversal is recorded in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized 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.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For financial investments available-for-sale, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the statement of operations; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

Non-financial assets

Other non-financial assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. For an asset that does not generate cash inflows largely independent of those of from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in the income statement and are only reversed if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, of no impairment loss had been recognized in the financial statements.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Equity

In accordance with amendments to *IAS 32 Financial instruments: Presentation* and *IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* that were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009 with earlier application permitted, puttable instruments that represent a residual interest in an entity must be classified as equity, provided they satisfy certain conditions. The Bank adopted these amendments when preparing the financial statements as at 31 December 2008 and for the year then ended. As a result, participants' shares are recognized in equity and not in liabilities.

Assets received as collateral

Assets received as collateral are not recorded on the balance sheet as they are not the assets of the Bank.

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

Interest-bearing liabilities

Interest-bearing liabilities are initially recognized at cost being their initial amount less transaction costs incurred. Subsequently, interest-bearing liabilities are carried at amortized cost, recognizing the difference between the actual amount of funds raised and the price of settling the interest-bearing liability in the income statement over the period of such liability.

If a liability is redeemed or settled early, the difference between its carrying amount and the price of settlement is recorded in the income settlement.

Provisions

A provision is recognized in the balance sheet when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Interest income and expense

Except for interest income on financial assets at fair value through profit or loss, interest income and expense are recognized in the income statement as they accrue, taking into account the actual rate of return on the asset/ liability or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on the effective interest rate basis.

At the decision of the Credit Committee, the Bank may discontinue to accrue interest on impaired loans in the risk group *Uncollectible debt* on the balance sheet to the extent that the Bank expects no cash flows from such loans, including cash flows from the sale of collateral, and consequently accrue interest on off-balance accounts until the Council of the Bank makes a decision to write off the loan as uncollectible.

Fee and commission income

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan together with the related direct costs are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fee and commission income is recognized when the relevant service is provided.

Net gains/ (losses) from financial instruments at fair value through profit or loss

Net gains/ (losses) from financial instruments at fair value through profit or loss include both interest income associated with these instruments and gains and losses on disposal of such instruments and change in their fair value.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Net gains/ (losses) from financial instruments at fair value through profit or loss (continued)

Interest income from financial instruments at fair value through profit or loss includes coupon income and amortization of discount or premium or other differences between the initial carrying amount and cost as at the date of settlement that are calculated based on the yield to maturity using the effective interest rate method.

Net gains/ (losses) from available-for-sale financial assets

Net gains/ (losses) from available-for-sale financial assets includes realized gains and losses on disposal of available-for-sale investment securities.

Dividend income

Dividend income from investments in companies in which the Bank has neither control nor significant influence is recognized in the income statement on the date that the dividend is declared.

Presentation of comparative information

Comparative information is presented in a manner which ensures consistent presentation of historical financial information as cooperated to the reporting period.

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	2009	*2008*
Cash on hand	58	9
Nostro accounts with banks and other financial institutions	7,336	6,867
Cash and cash equivalents	**7,394**	**6,876**

5. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	2009	*2008*
Term deposits with banks	112,146	50,289
Credit rating from AA- to AA+	12,004	5,000
Credit rating from A- to A+	98,056	5,000
Credit rating from BBB- to BBB+	2,086	–
Credit rating from B- to B+	–	15,394
No credit rating	–	24,895
Security deposits on transactions with combined financial instruments	10,041	55,635
Credit rating from AA- to AA+	10,041	10,100
Credit rating from A- to A+	–	30,504
No credit rating	–	15,031
Reverse repo agreements		
No credit rating	10,090	–
	132,277	**105,924**
Less: allowance for impairment	–	–
Deposits with banks and other financial institutions	**132,277**	**105,924**

Republic of Cuba	*2009*	*2008*
Term deposits with banks	33,255	33,205
No credit rating	33,255	33,205
	33,255	**33,205**
Less: allowance for impairment	(33,255)	(33,205)
Deposits with banks and other financial institutions	**–**	**–**

(Thousands of Euros)

5. Deposits with banks and other financial institutions (continued)

The Bank has reverse repo agreements with Ronin Europe Ltd. The subject of these agreements is Eurobonds issued by Russian investment-rated companies. The fair value of the Eurobonds is EUR 11,900 thousand as at 31 December 2009.

Security deposits on transactions with combined financial instruments represent deposits with major international banks that issued first-to-default credit linked notes (hereinafter the "banks issuing first-to-default credit linked notes") (Note 6). At 31 December 2009, the security deposit amounted to EUR 10,000 thousand at par (2008 - EUR 55,000 thousand). As at 31 December 2009, the maximum amount that the Bank was contractually bound to deposit with the banks issuing first-to-default credit linked notes was EUR 10,000 thousand at par (2008 - EUR 55,000 thousand).

As at 31 December 2009, deposits with banks in the Republic of Cuba made before 1990 amount to EUR 33,255 thousand (2008 - EUR 33,205 thousand). These balances account for over 10% of the total deposits with banks and other financial institutions. The Bank made a 100% allowance for these deposits totaling EUR 33,255 thousand as at 31 December 2009 (2008 - EUR 33,205 thousand).

Information on change in the allowance for impairment of deposits with banks and other financial institutions is presented below:

	2009	*2008*
At 1 January	**33,205**	**32,382**
Change in allowance resulting from changes in exchange rates	50	823
At 31 December	**33,255**	**33,205**

Repayment of the deposits with banks in the Republic of Cuba is a lasting process and the management believes that these receivables are deposits only formally and historically and are not relevant to the actual state of the Bank's deposits. As a result, the Bank does not include this debt (for which there is a 100% allowance) in the calculation of the quality and concentration of the Bank's deposits.

Concentration of deposits with banks and other financial institutions

As at 31 December 2009, the Bank has six counterparties (2008 – four counterparties) each accounting for over 10% of the Bank's total deposits with banks and other financial institutions. As at 31 December 2009, these deposits amount to EUR 90,051 thousand at par (2008 - EUR 75,476 thousand).

6. Financial instruments at fair value through profit or loss

Combined instruments comprise:

	2009	*2008*
Quoted first-to-default credit linked notes		
Note issued by JP Morgan Chase Bank, N. A. London branch	9,499	6,073
Note issued by Credit Suisse, Nassau branch	–	2,839
Quoted collaterised debt obligations		
Note issued by Salisbury International Investment Ltd	4,258	2,318
Note issued by Aria II	–	114
Quoted index-linked notes		
Index-linked note issued by Deutsche Bank AG, London branch	–	9,980
Combined financial instruments	**13,757**	**21,324**

Financial instruments held for trading comprise:

	2009	*2008*
Derivative financial instruments		
Forward foreign exchange contracts	(21)	–
Securities forwards	–	(68,263)
Financial instruments held for trading	**(21)**	**(68,263)**

(Thousands of Euros)

6. Financial instruments at fair value through profit or loss (continued)

Securities forwards

In November-December 2008, the Bank entered into forward transactions to sell US Treasures 38 securities with a total par value of USD 550,000 thousand. In 2008, the market for debt and equity securities was extremely volatile, resulting in significant changes in fair values of securities. Therefore, the price of US Treasures 38 securities has grown significantly as at 31 December 2008, while unrealized loss on revaluation of obligations to deliver these securities is USD 96,673 thousand (equivalent of EUR 68,263 thousand in the 2008 income statement at the exchange rate of USD 1.4162 per euro). Having closed the position on 28 January 2009, the Bank received an income of USD 86,123 thousand (equivalent of EUR 65,018 thousand at the exchange rate of USD 1.3246 per one euro). Therefore, net loss on transactions with US Treasures 38 securities amounted to EUR 3,245 thousand.

Combined financial instruments comprise:

	2009	*2008*
Quoted first-to-default credit linked notes		
Note issued by Barclays Bank PLC	–	(2,000)
Combined financial instruments	**–**	**(2,000)**

Combined financial instruments

First-to-default credit linked notes

First-to-default credit linked notes represent Euro-denominated notes with a total par value of EUR 10,000 thousand issued by major international banks and bearing interest at fixed or floating coupon rates (2008 - EUR 30,000 thousand). The associated payments depend on whether payments on certain governmental, municipal and corporate bonds will be made in full ("base bonds"). If certain events occur as specified in the prospectus, the Bank must place security deposits with the bank issuing first-to-default credit linked notes. In the event of default on any base bond, the bank issuing first-to-default credit linked notes may transfer the bonds in default to the Bank at par value in the amount equal to the total par value of first-to-default credit linked notes held by the Bank and no further payments on such liabilities will be made in favor of the Bank in this case.

As at 31 December 2009, security deposits with banks issuing first-to-default credit linked notes totaled EUR 10,000 thousand at par (2008 - EUR 55,000 thousand) (Note 5).

Collaterised debt obligations

Collaterised debt obligations represent Euro denominated notes with a total par value of EUR 7,500 thousand issued by special purpose vehicles and bearing interest at floating coupon rates. Yield on these notes depends on yield on securities that are collateral for such notes.

In the year ended 31 December 2009, the Bank recognized net income in the amount of EUR 19,899 thousand arising on repayment of liabilities to Credit Swisse, Aria II and Deutsche Bank AG (no repayments in 2008). In 2009, net gain on revaluation of notes recognized in the statement of financial position amounted to EUR 5,419 thousand as at 31 December 2009 (2008 – net loss on revaluation in the amount of EUR 46,229 thousand).

Forward exchange foreign contracts

The following table shows contractual amounts of the Bank's forward foreign exchange contracts for purchase and sale of foreign currency. The amounts in foreign currency below are translated at the exchange rates ruling at the balance sheet date. Unrealized gains and losses on the contracts that had not become due were recognized in profit or loss and in financial instruments at fair value through profit or loss.

	2009			*2008*		
	Notional principal	*Fair value*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Forward foreign exchange contracts						
For a period of less than three months	2,100	–	21	–	–	–
Forward foreign exchange contracts	**2,100**	**–**	**21**	**–**	**–**	**–**

Forwards contracts are contractual agreements to buy or sell a certain currency at the specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

(Thousands of Euros)

7. Available-for-sale investment securities

Available-for-sale investment securities comprise:

	2009	*2008*
Quoted debt securities		
Bonds of GAZ Capital S.A.	16,851	11,164
Bonds of the Ministry of Finance of the Russian Federation	3,745	–
Romanian government bonds	2,116	3,732
Bonds of TMK Capital S.A.	–	2,170
Slovak government bonds	1,622	–
Czech government bonds	1,620	–
Bulgarian government bonds	1,163	–
Quoted equity instruments		
ADR on shares of JSC VimpelCom	3,872	2,746
Available-for-sale investment securities	**30,989**	**19,812**

Available-for-sale investment securities pledged as collateral under repo agreements comprise:

	2009	*2008*
Quoted debt securities		
Bonds of the Ministry of Finance of the Russian Federation	–	9,301
Bonds of Steel Capital S.A.	–	1,459
Bonds of Evraz Group S.A.	–	1,985
Bonds of UBS (Luxemburg) S.A.	–	1,808
Available-for-sale investment securities pledged under repo agreements	**–**	**14,553**

8. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	2009	*2008*
Quoted debt securities		
Eurobonds of Rosbank International Finance B.V.	377	381
Held-to-maturity investment securities	**377**	**381**

9. Loans to customers

The Bank issued loans to customers operating in the following countries:

	2009	*2008*
Russian Federation	116,639	101,813
Mongolia	18,317	13,241
Republic of Bulgaria	2,867	2,775
Romania	–	304
Total loans to customers	**137,823**	**118,133**
Less: allowance for loan impairment	(61,932)	(18,941)
Loans to customers	**75,891**	**99,192**

	2009	*2008*
Republic of Cuba	41,708	42,194
Total loans to customers	**41,708**	**42,194**
Less: allowance for loan impairment	(41,708)	(42,194)
Loans to customers	**–**	**–**

(Thousands of Euros)

9. Loans to customers (continued)

Loans to borrowers in the Republic of Cuba originated during the period 1985-1990. As at 31 December 2009, total receivables relating to these loans amount to EUR 41,708 thousand (2008 - EUR 42,194 thousand). In December 1990, the Republic of Cuba discontinued payments to repay the debt. Due to the absence of collateral, delays for years and difficult economic conditions in the country, the Bank made a 100% allowance for the debt in the amount of EUR 41,708 thousand as at 31 December 2009 (2008 - EUR 42,194 thousand).

Repayment of the loans issued to borrowers in the Republic of Cuba is a lasting process and the management believes that these receivables relate to the Bank's loan portfolio just formally due to historical reasons and are not relevant to the actual state of the Bank's loan portfolio. In view of the above, receivables relating to borrowers in the Republic of Cuba, for which a 100% allowance was made, are neither included in the calculation of the quality of the bank's loan portfolio nor reflected in the tables below.

Overdue loans

A summary of overdue loans as at 31 December 2009 and 2008.

	2009	*2008*
Total loans for which the principal and interest is overdue	68,161	48,664
Total loans to customers	**68,161**	**48,664**
Less: allowance for loan impairment	(57,509)	(18,445)
Loans to customers	**10,652**	**30,219**

Total interest of EUR 310 thousand and EUR 1,744 thousand on overdue loans not included in the income statement for the years ended 31 December 2009 and 31 December 2008, respectively.

Allowance for loan impairment has been allocated to loans as follows:

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2009	16,821	864	1,256	**18,941**
Net charge for the year	31,243	3,610	1,239	**36,092**
Interest accrued on impaired loans (Note 18)	5,563	1,300	119	**6,982**
Change in allowance resulting from changes in exchange rates	(69)	(14)	–	**(83)**
At 31 December 2009	**53,558**	**5,760**	**2,614**	**61,932**
Individual impairment	**53,558**	**5,760**	**2,614**	**61,932**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**71,412**	**15,455**	**2,867**	**89,734**

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2008	7,755	833	1,133	**9,721**
Net charge for the year	5,619	–	123	**5,742**
Interest accrued on impaired loans (Note 18)	3,292	–	–	**3,292**
Change in allowance resulting from changes in exchange rates	155	31	–	**186**
At 31 December 2008	**16,821**	**864**	**1,256**	**18,941**
Individual impairment	**16,821**	**864**	**1,256**	**18,941**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**52,795**	**864**	**1,562**	**55,221**

(Thousands of Euros)

9. Loans to customers (continued)

Overdue loans (continued)

As described in Notes 2 and 3, the management relies on experience and judgment in estimating losses arising on the impairment of the Bank's loan portfolio. The Bank analyzed the existing loan portfolio and identified that there were indications that loans issued to borrowers in the amount of EUR 89,734 thousand as at 31 December 2009 may be impaired (2008 - EUR 55,221 thousand). Therefore, the Bank made an allowance of EUR 61,932 thousand for these loans (2008 - EUR 18,941 thousand).

Change in these estimates may influence the size of allowance for loan impairment. For example, if the net present value of estimated future cash flows has increased/ declined by 1%, allowance for impairment would have declined/increased by EUR 759 thousand as at 31 December 2009 (2008 – by EUR 992 thousand).

Concentration of loans to customers

At 31 December 2009 loans to three borrowers (2008 - three) with the total amount of loans to each of the three borrowers exceeded 10% of total loans to customers. As at 31 December 2009, these loans total comprised EUR 57,906 thousand (2008 - EUR 51,748 thousand) and an allowance of EUR 19,636 thousand has been made for them (2008 - EUR 994 thousand).

Analysis of collateral

The following table provides an analysis of the loan portfolio, net of allowance for impairment, by types of collateral as at 31 December 2009 and 31 December 2008:

	2009		*2008*	
	Loans net of impairment allowance	***Share in the total loans, %***	***Loans net of impairment allowance***	***Share in the total loans, %***
Pledge of equipment and goods in turnover	34,283	45.2	50,359	50.8
Pledge of real property (mortgage) and title	31,766	41.8	28,867	29.1
Pledge of rights of demand and construction	9,840	13.0	19,962	20.1
Other	2	–	4	–
Total	**75,891**	**100.0**	**99,192**	**100.0**

The amounts shown in the table above represent the carrying value of the loan portfolio, and do not necessarily represent the fair value of the collateral.

Analysis of loans by industry

The Bank issued loans to borrowers operating in the following industries:

	2009	*2008*
Construction of buildings	47,468	44,574
Production, transmission and distribution of electricity, gas and steam	35,707	31,538
Food and beverage	26,622	25,071
Mining	13,277	8,570
Timber manufacturing	9,519	2,913
Specialized construction	2,470	2,470
Rubber and plastic manufacturing	1,305	1,214
Air transport	850	864
Leather manufacturing	605	615
Real estate	–	304
	137,823	**118,133**
Less: allowance for loan impairment	(61,932)	(18,941)
Loans to customers	**75,891**	**99,192**

Loan maturity

Contractual maturities of the Bank's loan portfolio are shown in Note 21 as at the reporting date and represent periods from the reporting date to the date of maturity of a loan agreement.

(Thousands of Euros)

10. Investment property

Investment property is property held by the Bank to earn rentals under operating lease. Investment property is measured at cost, including transaction costs. Investment property is derecognized upon disposal or withdrawal from use and when no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is included in the income statement in the year the asset is derecognized.

In 2009 and 2008, the following changes occurred in the cost of property under operating lease:

	2009	*2008*
Cost		
1 January	**25,103**	**28,267**
Additions	429	312
Disposals	(13)	–
Transfers	(430)	(3,476)
31 December	**25,089**	**25,103**
Depreciation		
1 January	**(9,016)**	**(9,610)**
Depreciation charge	(576)	(630)
Disposals	12	–
Transfers	158	1,224
31 December	**(9,422)**	**(9,016)**
Net book value as at 31 December	**15,667**	**16,087**

11. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Equipment*	*Computers and software*	*Office furniture*	*Vehicles*	*Total*
Cost						
1 January 2008	**27,422**	**4,868**	**1,639**	**587**	**746**	**35,262**
Additions	357	141	206	52	175	**931**
Disposals	–	(155)	(355)	(54)	(240)	**(804)**
Transfers	3,112	364	–	–	–	**3,476**
31 December 2008	**30,891**	**5,218**	**1,490**	**585**	**681**	**38,865**
Additions	568	84	660	23	–	**1,335**
Disposals	–	(370)	(29)	(57)	(89)	**(545)**
Transfers	386	45	–	–	–	**431**
31 December 2009	**31,845**	**4,977**	**2,121**	**551**	**592**	**40,086**
Accumulated depreciation						
1 January 2008	**(8,057)**	**(4,245)**	**(1,023)**	**(435)**	**(512)**	**(14,272)**
Depreciation charge	(612)	(303)	(308)	(19)	(86)	**(1,328)**
Disposals	–	150	355	54	240	**799**
Transfers	(914)	(310)	–	–	–	**(1,224)**
31 December 2008	**(9,583)**	**(4,708)**	**(976)**	**(400)**	**(358)**	**(16,025)**
Depreciation charge	(629)	(226)	(344)	(23)	(115)	**(1,337)**
Disposals	–	370	29	51	89	**539**
Transfers	(120)	(38)	–	–	–	**(158)**
31 December 2009	**(10,332)**	**(4,602)**	**(1,291)**	**(372)**	**(384)**	**(16,981)**
Net book value						
31 December 2008	**21,308**	**510**	**514**	**185**	**323**	**22,840**
31 December 2009	**21,513**	**375**	**830**	**179**	**208**	**23,105**

As at 31 December 2009, the cost of fully depreciated property and equipment still used by the Bank is EUR 6,617 thousand (2008 - EUR 5,333 thousand).

(Thousands of Euros)

12. Other assets and liabilities

Other assets comprise:

	2009	*2008*
Advance payments	1,344	1,159
Other accounts receivable	147	5
Other assets	**1,491**	**1,164**

Other liabilities comprise:

	2009	*2008*
Provision for potential VAT payments related to income from leases	1,820	1,901
Settlements with employees	315	4
Other accounts payable	2,669	3,621
Other	187	168
Other liabilities	**4,991**	**5,694**

Provision for potential VAT payments related to income from leases

As discussed in Note 1, the Bank's activity is not subject to tax. The Bank was engaged in litigation proceedings against the tax authorities in respect with a value added tax (hereinafter, the "VAT") liability related to income from real estate leases based on legal act which became effective on 19 December 2005. As a result, the claim was dismissed based on formal circumstances. Although the Bank's management believes that the Bank is not subject to VAT, due to uncertain approach of the above authorities towards the Bank's VAT payment and previous legal proceedings the Bank made provisions of EUR 1,820 thousand and EUR 1,901 thousand for all possible payments of VAT, fines and penalties recognized in these financial statements as of 31 December 2009 and 2008, respectively. Change in amounts of provision is related to movements in foreign exchange rates. Provisions for claims are recorded as liabilities.

The management believes that this amount is the most suitable to cover the Bank's losses from that issue.

13. Due from banks and other financial institutions

Due from banks and other financial institutions comprise:

	2009	*2008*
Correspondent accounts of banks	58	60
Repurchase agreements payable	–	9,834
Due from banks and other financial institutions	**58**	**9,894**

14. Equity and Available-for-sale Reserve

Equity

The Bank's subscribed capital amounts to EUR 1,300,000 thousand which represents the Bank's equity stated in the Agreement. The Bank's member countries make contributions to the Bank's equity pursuant to their shares stipulated in the Agreement. Callable capital is the amount of contributions by the Bank's member countries which have not been made yet.

(Thousands of Euros)

14. Equity and Available-for-sale Reserve (continued)

Available-for-sale Reserve

The movements in available-for-sale reserve were as follows:

	Available-for-sale reserve
At 1 January 2008	**(794)**
Net unrealized losses on available-for-sale investment securities	(9,676)
Realized losses on available-for-sale investment securities reclassified to the income statement	722
At 31 December 2008	**(9,748)**
Net unrealized gains on available-for-sale investment securities	16,169
Realized gains on available-for-sale investment securities reclassified to the income statement	(2,470)
At 31 December 2009	**3,951**

This reserve records fair value changes of available-for-sale investments.

15. Contingencies and loan commitments

Legal

In accordance with the Agreement on the establishment of the Bank, its assets (irrespective of their location) enjoy immunities from any administrative and legal claims.

In the ordinary course of business, the Bank acts as a plaintiff is in a number of court proceedings against its borrowers. The Bank takes all necessary legal and other actions to collect the bad debt and to realize respective repossession rights. When the estimated amount of costs resulting from the Bank's further actions to collect bad debt and/or realize respective repossession rights is higher than the amount collected and also when the Bank holds necessary and sufficient documents and/or regulations issued by the governmental authorities, it decides to write off such bad debt against the respective provision.

Insurance

The Bank obtained insurance coverage for all its buildings and equipment. However, the Bank did not obtain a full insurance coverage related to temporary discontinued operations or the Bank's obligations to third parties. Until the Bank obtains a sufficient insurance coverage for its activities, there is a risk that potential loss may result in significant negative impact on the performance or financial position of the Bank.

Commitments and contingencies

At any time the Bank has outstanding commitments to extend loans. These commitments take the form of approved loan agreements.

The contractual amounts of off-balance sheet commitments are set out in the table below. The amounts reflected in the table for commitments assume that amounts are fully advanced.

On 31 December, the Bank’s financial commitments and contingencies comprised the following:

	2009	*2008*
Credit related commitments		
Undrawn loan facilities	8,532	21,075
Commitments and contingencies	**8,532**	**21,075**

Many of the above commitments may terminate without being performed partially or in full. Therefore, the above commitments do not represent expected cash outflow.

(Thousands of Euros)

16. Leases

Bank as lessor

The Bank provides its real estate for operating leases. The Bank's non-cancelable operating lease rentals are receivable as follows:

	2009	*2008*
Less than 1 year	5,026	7,410
Leases	**5,026**	**7,410**

17. Loan and deposit trust operations

Loan and deposit operations are one of the types of agency/trust operations that imply the agent carrying certain actions in its own name; however, all expenses and risks are borne by the client whose name is not disclosed. Loan and deposit operations involve the following parties:

"Bank" is a bank which (for the purpose of a loan and deposit operation) acts as the Client's agent to provide a credit related product to a Third Party on the Client's behalf, at the Client's expense and on terms determined by the Client.

"Client" is the Bank's customer requesting to carry out a loan and deposit operation and providing guaranty (coverage, security deposit). Such guaranty limits the amount of a credit related product provided by the Bank to a Third Party by setting risk-free terms.

"Third Party" is a recipient of the Bank's credit related product determined by the Client.

The Bank performs such operations considering the reputational risk and the fact that the Client accepts all risks.

The Bank records such operations as a transfer of financial assets as the Bank retains contractual claims to receive cash flows from financial assets ("original asset"), but commits to transfer these cash flows to one or more entities ("eventual recipients") on the following conditions:

- The Bank shall pay cash to eventual recipients upon receipt of equivalent amounts from the original asset;
- Pursuant to the transfer agreement, the Bank may not sell or pledge original asset for any purpose except guarantying its obligation to pay cash flows to the eventual recipients;
- The Bank has no significant delays in transfers of any cash flows received on behalf of the eventual recipients. In addition, the Bank may not reinvest such cash flows (except investment in form of cash or cash equivalents) within a short period from the day of their receipt to the day of required transfer to eventual recipients. Interest income from such investment shall be transferred to eventual recipients.

The Bank receives fee income for providing these services.

Net gains from such operations comprises fee and commission income from trust operations which for year ended 31 December 2009 amounted to EUR 268 thousand (2008: EUR 477 thousand).

18. Interest income and interest expense

Net interest income comprises:

	2009	*2008*
Loans to customers	3,995	4,058
Interest income accrued on impaired loans (Note 9)	6,982	3,292
Available-for-sale investment securities and investment securities held to maturity	2,921	1,544
Deposits with banks and other financial institutions	963	6,648
Interest income	**14,861**	**15,542**
Due from banks and other financial institutions	(29)	(202)
Current customer accounts	(42)	(177)
Interest expenses	**(71)**	**(379)**
Net interest income	**14,790**	**15,163**

(Thousands of Euros)

19. Net (loss)/gain from foreign currencies

Net gains from foreign currencies comprised:

	2009	*2008*
Net (loss)/gain from revaluation of assets and liabilities in foreign currencies	(3,812)	580
Net (loss)/gain from trading	(184)	625
Net (loss)/gain from foreign currencies	**(3,996)**	**1,205**

20. General and administrative expenses

General and administrative expenses comprise:

	2009	*2008*
Employee compensations and employment taxes	6,039	6,835
Administration and management	2,665	3,232
Depreciation charge	1,913	1,958
Other	327	444
General and administrative expenses	**10,944**	**12,469**

21. Risk management

The Bank classifies risks inherent in its various activities into three main groups:

- financial risks;
- operational risks;
- business risks.

Risk management framework

The Bank's risk management policy is based on the conservative assessments and is mainly aimed at mitigation of adverse impact of risks on the Bank's results, i.e. on the safety and reliability of fund allocation while maintaining the reasonable level of profitability. The conservative assessment assumes that the Bank does not enter into potential transactions with high or undeterminable risk level, regardless of profitability.

The Bank's risk management activities are intended to:

- identify, analyze and manage risks faced by the Bank;
- establish ratios and limits that restrict level of the appropriate types of risks;
- monitor the level of the risk and its compliance with established limits;
- develop and implement regulative and methodological documents as well as software applications that ensure the professional risk management for the bank transactions.

Risk management policies and procedures are reviewed regularly to reflect changing situation on the financial markets.

Risk management system

For the purposes of risk management, the Bank applies risk management system which ensures cooperation in the area of risk management among all management bodies, business units and committees of the Bank in accordance with the existing regulatory documents. The main components of the risk management system include the Council, the Audit Committee, the Board, the Asset, Liability and Risk Committee (ALRCO), the Credit Committee and the Risk Management Department.

The Council is the supreme management body of the Bank responsible for its overall management, approval of the Main Risk Management Principles as well as approval of its key risk ratios.

(Thousands of Euros)

21. Risk management (continued)

Risk management system (continued)

The Audit Committee appointed by the Council audits the Bank's operations considering all the risk factors stipulated by the Regulation on the Audit Committee of the Bank.

The Board is the executive body of the Bank, which is responsible for compliance with risk management policies and procedures as well as ratios and limits established by the Council. The Board ensures co-operation among all business units and committees of the Bank with regard to risk management.

ALRCO is the Board's collegial body responsible for development and implementation of the risk management policy in the course of interbank and security transactions.

The Credit Committee is the Board's collegial body responsible for lending and assessment of risks arising from loans, guarantees and other types of credit-related transactions.

Committees meet on a regularly basis and provide to the Board their recommendations to improve risk management policies and procedures as well as information on significant transactions.

The Risk Management Department collects and analyzes information related to all types of bank risks, performs their qualitative and quantitative assessment, prepares recommendations for the Board and committees of the Bank to mitigate risk impact on the Bank's performance.

Risk identification

The Bank identifies and manages both external and internal risk factors throughout its organizational structure. As a result of regular analysis of the Bank's exposure to different types of risks performed by the Risk Management Department, the Bank identifies factors leading to the increase of the risk level and determines the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks influencing the results of banking transactions. Current risks exposures and their projected changes are discussed during the meetings of ALRCO and also communicated to the Board along with the recommendations on possible risk mitigation measures.

Risk assessment, management and control

The Bank's risk assessment, reporting and control procedures vary by risk type, but are based on a common methodology developed and updated by the Risk Management Department.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its counterparty fails to discharge its contractual financial obligations to the Bank, or discharged them in an untimely fashion or not in full. Credit risk arises principally from loans and advances to customers and other banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Bank considers and consolidates all elements of credit risk exposures such as individual borrower or counterparty default risk, geographical and industry risk.

For risk management purposes, credit risk arising from financial instruments at fair value through profit or loss is managed and reported as a market risk exposure.

System of credit risk management

Upon preparation of a transaction by the initiating unit it is approved by the Credit Committee, and then - the Board. The Board is responsible for all direct credit risk exposures up to 7% of the Bank's equity and up to 7 years. Direct credit risks exposures of over 7% of the Bank's equity or above 7 years should be approved by the Council of the Bank.

(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

Credit risk management

The objective of credit risk management is to decrease its possible adverse effect on the Bank's performance based on the maintenance of potential losses resulted from credit risk within established limits.

To mitigate credit risk, the Bank limits concentrations of exposure to individual customers, counterparties and issuers (for securities), groups of related customers, counterparties and issuers as well as by industry/ sector, credit rating (for securities). Credit risk management process is based on regular analysis of the creditworthiness the borrowers and their ability to repay interest and principal of debt, and on correspondent limits modification (if necessary).

The Bank's regulatory documents establish the following:

- procedures to review and approve loan/credit applications;
- methodology for the credit assessment of borrowers, counterparties, issuers and insurance companies;
- valuation approaches with regard to collateral offered;
- requirements to the credit documentation;
- procedures for the ongoing monitoring of loans and other credit exposures.

The loan/credit application is reviewed at two stages. The corporate loan/credit application and appropriate project documents are reviewed by the Credit Department. The then Credit Committee performs the initial discussion of reasons of further reviewing this loan/credit application based on the rapid assessment prepared by the Credit Department. In case of positive decision, the set of documents required for reviewing the loan/credit application together with the memorandum of the Credit Department shall be analyzed by appropriate business units. The loan/credit application is subject to secondary review by the Credit Committee based on the memorandum of the Credit Department, report on risks of the Risk Management Department and compulsory judgment of the Legal Department in respect of the legal compliance of the proposed transaction.

Apart from individual customer analysis, the Risk Management Department assesses the whole loan portfolio with regard to credit concentration and market risks. Based on the Bank's internal rating model to determine borrower's default probability and recovery estimates, the Bank classifies all loans and other credit related products by the respective groups of risks.

The Bank performs additional actions to mitigate credit risk in adverse crisis environment, i.e. improves its regulations for credit risk management procedures, adds and expands functions and authorities of respective business units.

The Bank continuously monitors the quality of individual credit exposures and regularly reassesses the creditworthiness of its customers. The revaluation is based on the customer's most recent financial statements, past-due status, performance of its business plan and other information submitted by the borrower, or otherwise obtained by the Bank. Based on this information, the borrower's internal credit rating (class of the loan) may be revised and, accordingly, the appropriate loan impairment provision may be created or changed.

Collateral and other credit enhancements

Credit risk is also managed by obtaining pledge of real estate, assets and securities, and other collateral, including corporate and personal guarantees, as well as monitoring availability and value of collateral.

As availability of collateral is important to mitigate credit risk, this factor is a priority for the Bank when reviewing loan/credit applications if their terms and conditions are similar. To ensure recovery of its resources associated with conducting lending and project-financing transactions, the Bank applies the following types of collateral for recovery of loans and fulfillment of obligations:

- pledge of equipment and goods in turnover;
- pledge of real property (mortgage) and title;
- pledge of rights of demand and construction.

(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

Analysis of the Bank's loan portfolio, net of impairment allowance, by types of collateral is provided in Note 9.

Collateral is not generally held over loans and deposits, except where securities are held as collateral in reverse repurchase agreements. Collateral is not required against exposures to securities.

Quality of the collateral provided is assessed by the following criteria: safety, adequacy and liquidity.

The Bank assumes that the fair value of the collateral is its value estimate recognized by the Bank to calculate the discounted impairment allowance based on its liquidity and possibility of selling such property in the event of borrower's default considering the time needed for such sale, litigation and other costs.

Current market value of the collateral, if necessary, is assessed by accredited appraisers or based on the Bank's internal expert estimate, or carrying amount of the collateral including adjustment coefficient (discount). The Bank's internal expert opinion on the fair value of the collateral and feasibility of the adjustment coefficient (discount), which adjusts the market value, shall be approved/ reconciled with the Risk Control Department. The adjustment coefficient (discount) is established based on the table of recommended discounts "Regulations on lending operations" as at initial measurement of the collateral value. Where the market value of the collateral is assessed as impaired, the clients are usually required to provide additional collateral.

Allowance for loan impairment

The Bank establishes an allowance for loan impairment that represents its estimate of losses incurred in its loan portfolio. The Bank writes off a loan balance against related allowances for loan losses only subject to the approval of the Board of Directors and where the loan is determined as uncollectible and when all necessary steps to collect the loan are completed. Such decision is made after consideration of the information on significant changes in the client's financial position such as inability to repay the loan, and when proceedings from disposal of the collateral are insufficient to cover all the debt amount. Generally, overdue loans are written off when overdue more than five years or if the debtor is declared bankrupt.

Maximum exposure to credit risk

Maximum credit risk exposure of the Bank as related to financial assets is recorded in their carrying amount.

Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same procedures and methodologies, as defined by the Bank's credit policy, for approving credit related commitments (undrawn loan commitments, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans). Maximum credit risk exposure by credit related commitment represents all the amount of these commitments (Note 15).

The Bank monitors credit risk concentrations by industry and geographic location. Analysis of credit risk concentration by industry is presented in Note 9.

(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

The table below shows information on credit risk geographical concentration as of 31 December 2009 and 2008:

					2009				
	Russian Federation	***Czech Republic***	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Republic of Cuba***	***Mongolia***	***Other countries***	***Total***
Assets:									
Cash and cash equivalents	842	–	–	–	–	–	–	6,552	**7,394**
Deposits with banks and other financial institutions	2,086	–	–	–	8,005	–	–	122,186	**132,277**
Financial instruments at fair value through profit or loss:									
- combined financial instruments	–	–	–	–	–	–	–	13,757	**13,757**
Available-for-sale investment securities:									
- owned by the Bank	24,468	1,620	1,163	2,116	1,622	–	–	–	**30,989**
Loans to customers less allowance for impairment	63,081	–	253	–	–	–	12,557	–	**75,891**
Held-to-maturity investment securities	377	–	–	–	–		–	–	**377**
Other assets	1,468	–	–	–	–	20	–	3	**1,491**
Total	**92,322**	**1,620**	**1,416**	**2,116**	**9,627**	**20**	**12,557**	**142,498**	**262,176**

					2008				
	Russian Federation	***Czech Republic***	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Republic of Cuba***	***Mongolia***	***Other countries***	***Total***
Assets:									
Cash and cash equivalents	1,988	–	–	–	–	–	–	4,888	**6,876**
Deposits with banks and other financial institutions	26,776	–	–	–	10,007	–	–	69,141	**105,924**
Financial instruments at fair value through profit or loss:									
- combined financial instruments	–	–	–	–	–	–	–	21,324	**21,324**
Available-for-sale investment securities:									
- owned by the Bank	16,080	–	–	–	3,732	–	–	–	**19,812**
- pledged under repurchase agreements	14,553	–	–	–	–	–	–	–	**14,553**
Loans to customers less allowance for impairment	84,992	–	1,519	304	–	–	12,377	–	**99,192**
Held-to-maturity investment securities	381	–	–	–	–	–	–	–	**381**
Other assets	1,138	–	–	–	–	20	–	6	**1,164**
Total	**145,908**	**–**	**1,519**	**304**	**13,739**	**20**	**12,377**	**95,359**	**269,226**

Other countries include members of the Organization for Economic Development (OECD).

(Thousands of Euros)

21. Risk management (continued)

Credit quality of financial assets

The assessment of credit quality of assets is based on the qualitative and quantitative assessment of credit risk.

Assessment of credit quality of loans to legal entities is based on 5 grade system of assets credit rating: standard, sub-standard, doubtful, impaired and uncollectible. The credit rating is assigned on the basis of the assessment of the client's financial position, payment discipline, credit history, compliance with business-plan and production discipline, additional characteristics such as management quality, strength of positions in the market, competitive potential, influence of the state bodies on the current activity, industry specifics and country rating.

The following table provides information on the credit quality of the loans issued and included in the Bank's loan portfolio as of 31 December 2009:

	Loan amount	*Impairment*	*Loan amount including impairment*	*Impairment to loan amount ratio %*
Loans without any signs of impairment identified				
Standard				
- Russian Federation	45,226	–	45,226	–
- Mongolia	2,862	–	2,862	–
Impaired loans (below standard grade)				
Loans under supervision				
- Russian Federation	21,574	(4,423)	17,151	21
Loans overdue less than 90 days				
- Mongolia	14,605	(4,910)	9,695	34
Loans overdue from 90 days to 1 year				
- Republic of Bulgaria	1,305	(1,052)	253	81
Loans overdue over 1 year				
- Russian Federation	9,096	(8,392)	704	92
Uncollectible loans				
- Russian Federation	40,743	(40,743)	–	100
- Republic of Bulgaria	1,562	(1,562)	–	100
Mongolia	850	(850)	–	100
Total loans to customers	**137,823**	**(61,932)**	**75,891**	**45**

(Thousands of Euros)

21. Risk management (continued)

Credit quality of financial assets (continued)

The following table provides information on the credit quality of the loans issued and included in the Bank's loan portfolio as of 31 December 2008:

	Loan amount	*Impairment*	*Loan amount including impairment*	*Impairment to loan amount ratio %*
Loans without any signs of impairment identified				
Standard				
- *Russian Federation*	49,018	–	49,018	–
- *Mongolia*	12,377	–	12,377	–
- *Romania*	304	–	304	–
- *Republic of Bulgaria*	1,213	–	1,213	–
Impaired loans (below standard grade)				
Loans under supervision				
- *Russian Federation*	6,557	(496)	6,061	8
Loans overdue less than 90 days				
- *Russian Federation*	20,211	(994)	19,217	5
Loans overdue from 90 days to 1 year				
- *Russian Federation*	19,421	(8,725)	10,696	45
Loans overdue over 1 year				
- *Republic of Bulgaria*	1,562	(1,256)	306	80
- *Mongolia*	864	(864)	–	100
Uncollectible loans				
- *Russian Federation*	6,606	(6,606)	–	100
Total loans to customers	**118,133**	**(18,941)**	**99,192**	**16**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated structured loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual impairment assessment, calculated using the loan's original effective interest rate. As of 31 December 2009, loans provided to Russian companies in the amount of EUR 15,463 thousand (before allowance for impairment) were restructured. As of 31 December 2008, there were no such loans.

As of 31 December 2009, fair value of collateral based on which impaired loans are provided for, amounted to EUR 2,884 thousand (2008: 0).

Liquidity risk

Liquidity risk is the risk of loss resulting from the Bank's inability to meet its payment obligations in full. Liquidity risk results from improper balance between the Bank's financial assets and financial liabilities by period and amount (including due to untimely discharge of its financial obligations by one or several counteragents of the Bank) and/or an unforeseen need of immediate and simultaneous discharge of its financial obligations.

The Bank's approach to management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or taking risk of damage to the Bank's reputation.

In the course of liquidity management the Bank's management relies on the following principles:

- liquidity priority over return;
- continuous liquidity management;
- distribution of authorities between management bodies and divisions;
- planning and limitation of liquidity consistent with the size, nature of business and financial position of the Bank;
- forecasting of cash flows.

(Thousands of Euros)

21. Risk management (continued)

Liquidity risk (continued)

Liquidity risk is managed to ensure the Bank's ability to meet its financial obligations in full and on a timely basis. For this purpose the Bank:

- determines an acceptable liquidity level;
- continuously monitors liquidity;
- takes measures to maintain liquidity at the acceptable level;
- in case of liquidity crisis performs a set of procedures for its recovery.

The Bank manages its liquidity in two areas: the Treasury Department manages the liquidity, and Risk Control Department performs control over risk liquidity.

The Treasury Department receives on a weekly basis information from business units regarding the liquidity profile of their financial assets and liabilities and forecasts of projected cash flows arising from projected future business. Further, the Treasury Department manages the Bank's liquidity in accordance with the existing regulatory documents of the Bank and ALRCO's decisions.

The Risk Control Department performs control on a weekly basis over actual values of the current and overall liquidity and compares these values with standards. In case of non-compliance of these standards, the Risk Control Department immediately notifies ALRCO about it in order to develop and perform activities for recovering liquidity.

Due to the fact that all the Bank's liabilities are short-term with maturity "on demand" or "less than 1 month", the Bank does not estimate non-discounted cash flows since the expected cash outflow will not be significantly different from the carrying value of the Bank's financial liabilities as of 31 December 2009 and 31 December 2008.

The following tables provide an analysis of assets and liabilities on the basis of the remaining period from the balance sheet date to the contractual maturity date (liquidity gap).

	2009							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	7,394	–	–	–	–	–	–	**7,394**
Deposits with banks and other financial institutions	105,266	27,011	–	–	–	–	–	**132,277**
Financial instruments at fair value through profit or loss:								
- *combined financial instruments*	142	1,249	–	12,366	–	–	–	**13,757**
Loans to customers less allowance for impairment	486	1,438	11,626	44,961	6,728	–	10,652	**75,891**
Available-for-sale investment securities:								
- *owned by the Bank*	72	473	511	13,185	12,876	3,872	–	**30,989**
Held to maturity investment securities	18	–	–	359	–	–	–	**377**
Investment property	–	–	–	–	–	15,667	–	**15,667**
Property and equipment	–	–	–	–	–	23,105	–	**23,105**
Other assets	766	236	489	–	–	–	–	**1,491**
	114,144	**30,407**	**12,626**	**70,871**	**19,604**	**42,644**	**10,652**	**300,948**
Liabilities:								
Due from banks and other financial institutions	58	–	–	–	–	–	–	**58**
Current customer accounts	2,425	–	–	–	–	–	–	**2,425**
Financial instruments at fair value through profit or loss:								
- *financial instruments held for trading purposes*	21	–	–	–	–	–	–	**21**
Other liabilities	1,791	170	3,030	–	–	–	–	**4,991**
	4,295	**170**	**3,030**	**–**	**–**	**–**	**–**	**7,495**
Net position	**109,849**	**30,237**	**9,596**	**70,871**	**19,604**	**42,644**	**10,652**	**293,453**
Accumulated net position	**109,849**	**140,086**	**149,682**	**220,553**	**240,157**	**282,801**	**293,453**	

(Thousands of Euros)

21. Risk management (continued)

Liquidity risk (continued)

	2008							
	Less than 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*No stated maturity*	*Past due*	*Total*
Cash and cash equivalents	6,876	–	–	–	–	–	–	**6,876**
Deposits with banks and other financial institutions	94,164	1,760	–	10,000	–	–	–	**105,924**
Financial instruments at fair value through profit or loss								
- combined financial instruments	198	1,288	375	19,463	–	–	–	**21,324**
Loans to customers less allowance for impairment	665	2,882	632	64,794	–	–	30,219	**99,192**
Available-for-sale investment securities:								
- owned by the Bank	30	389	2,156	389	14,102	2,746	–	**19,812**
- pledged under repurchase agreements	–	1,930	3,004	2,384	7,235	–	–	**14,553**
Held-to-maturity investment securities	18	–	–	363	–	–	–	**381**
Investment property	–	–	–	–	–	16,087	–	**16,087**
Property and equipment	–	–	–	–	–	22,840	–	**22,840**
Other assets	52	1,029	83	–	–	–	–	**1,164**
	102,003	**9,278**	**6,250**	**97,393**	**21,337**	**41,673**	**30,219**	**308,153**
Liabilities:								
Due from banks and other financial institutions	9,894	–	–	–	–	–	–	**9,894**
Current customer accounts	2,835	–	–	–	–	–	–	**2,835**
Financial instruments at fair value through profit or loss								
- financial instruments held for trading purposes	68,263	–	–	–	–	–	–	**68,263**
- combined financial instruments	–	–	2,000	–	–	–	–	**2,000**
Other liabilities	2,203	376	3,115	–	–	–	–	**5,694**
	83,195	**376**	**5,115**	**–**	**–**	**–**	**–**	**88,686**
Net position	**18,808**	**8,902**	**1,135**	**97,393**	**21,337**	**41,673**	**30,219**	**219,467**
Accumulated net position	**18,808**	**27,710**	**28,845**	**126,238**	**147,575**	**189,248**	**219,467**	

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2009	–	–	4,783	3,749	**8,532**
2008	–	–	12,941	8,134	**21,075**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the Bank may incur losses due to adverse changes in the market situation expressed in changes in interest rates, exchange rates and value of equity instruments. Market risk is divided into interest rate, currency and equity risks. Market risk arises from open position in interest rate, currency and equity financial instruments, which are subject to general and specific market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk. In stressed market conditions caused by the global crisis these activities on market risk management shall be hardened, therefore, the regulatory base is enhanced, including development of a guideline to estimate stop-loss and take-profit limits.

(Thousands of Euros)

21. Risk management (continued)

Market risk (continued)

ALRCO, led by the Deputy Chairman of the Bank's Management Board, coordinates the Bank's market risk management policy, considers and provides recommendations for the Management Board, which performs an overall market risk management in accordance with the Main Principles of Risk Management Policies approved by the Board of Directors.

The market risk is mainly managed through daily reassessment of market price positions; optimization of the maturities and raising funds ensuring a stable interest margin; setting and complying with respective limits, which restrict exposure to equity, interest and currency risks.

Currency risk

Foreign currency risk is the risk of loss resulting from adverse changes in exchange rates with respect to the Bank's open positions in foreign currencies.

The currency risk is analyzed through regular estimation of the open currency position with breakdown by currencies and certain balance sheet positions with consideration of maturities/ terms of borrowings denominated in foreign currencies.

The currency risk is monitored through regular preparation of analytical materials related to currency and finance markets of the countries of placements and borrowings, which includes required information on quotes, interest rates, exchange rates and trends of their movements.

If necessary, the bank performs adjustments to the asset and liability currency structure to minimize the currency risk. The currency risk is managed through:

- establishing and compliance with the limits of two levels, including limits of the open currency position and limits for currency operations performed by officials and business units of the bank (operational limits).

The tables below indicate the currencies to which the Bank has significant exposure at 31 December 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the euro, with all other variables held constant, on the statement of income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on the equity does not differ from the effect on the income statement. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate, % 2009*	*Effect on profit 2009*	*Change in currency rate, % 2008*	*Effect on profit 2008*
USD	+12/(12)	1,055/(829)	+14/(14)	(7,219)/5,446

(Thousands of Euros)

21. Risk management (continued)

Market risk (continued)

The Bank's exposure to currency risk is presented below:

	2009				2008			
	EUR	*USD*	*Other currencies*	*Total*	*EUR*	*USD*	*Other currencies*	*Total*
Assets:								
Cash and cash equivalents	6,231	454	709	**7,394**	4,866	496	1,514	**6,876**
Deposits with banks and other financial institutions	130,191	–	2,086	**132,277**	91,377	14,547	–	**105,924**
Financial instruments at fair value through profit or loss								
- combined financial instruments	13,757	–	–	**13,757**	21,324	–	–	**21,324**
Loans to customers less allowance for impairment	75,891			**75,891**	99,192	–	–	**99,192**
Available-for-sale investment securities:								
- owned by the Bank	23,371	7,618	–	**30,989**	14,897	4,915	–	**19,812**
- pledged under repurchase agreements	–	–	–	**–**	–	14,553	–	**14,553**
Held-to-maturity investment securities	–	377	–	**377**	–	381	–	**381**
Investment property	15,667			**15,667**	16,087	–	–	**16,087**
Property and equipment	23,105			**23,105**	22,840	–	–	**22,840**
Other assets	411	133	947	**1,491**	68	82	1,014	**1,164**
	288,624	**8,582**	**3,742**	**300,948**	**270,651**	**34,974**	**2,528**	**308,153**
Liabilities:								
Due from banks and other financial institutions	–	58	–	**58**	–	9,894	–	**9,894**
Current customer accounts	2,064	361	–	**2,425**	2,226	609		**2,835**
Financial instruments at fair value through profit or loss								
- financial instruments held for trading purposes	21	–	–	**21**	–	68,263	–	**68,263**
- combined financial instruments	–	–	–	**–**	2,000	–	–	**2,000**
Other liabilities	1,374	429	3,188	**4,991**	1,242	556	3,896	**5,694**
	3,459	**848**	**3,188**	**7,495**	**5,468**	**79,322**	**3,896**	**88,686**
Net balance sheet position	**285,165**	**7,734**	**554**	**293,453**	**265,183**	**(44,348)**	**(1,368)**	**219,467**

Interest rate risk

The interest rate risk is the risk of financial losses due to adverse changes in the interest rates of the Bank's assets, liabilities and off-balance instruments.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise. The Management Board is responsible for overall management of the Bank's assets and liabilities. Due to insignificant amount of borrowings, currently the effect of the interest rate risk is not material.

An analysis of sensitivity of net profit/ (loss) and equity of the Bank for the year to movements in market interest rates (prepared on the basis of simplified scenario of a 200 basis point parallel fall or rise in all yield curves and revised positions on interest-bearing assets and liabilities existing as of 31 December 2009 and 31 December 2008) may be presented as follows:

	2009	*2008*	*2009*	*2008*
Changes in interest rates in basis points	***Sensitivity of net interest income***		***Change in equity***	
200 bp parallel rise	149,323	106,804	149,323	106,804
200 bp parallel fall	(154,717)	(110,834)	(154,717)	(110,834)

(Thousands of Euros)

21. Risk management (continued)

Market risk (continued)

Equity risk

Equity risk is the risk of losses due to adverse changes in the market prices for equity instruments (securities) and derivatives that were acquired by the Bank, caused by factors related both to issuers and overall fluctuations in the equity market.

The equity risk is managed through strict compliance with the established limits. To minimize the equity risk, in the course of its activity the Bank may establish the following limits: by kinds of securities operations; by types of securities; stop loss limits for trade and derived operations with securities; limits for issuers.

The effect on equity (as a result of change in fair value of equity instruments recognized as available for sale as of 31 December 2009 and 2008) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	*Index change 2009*	*Effect on equity 2009*	*Index change 2008*	*Effect on equity 2008*
Russian Trading System Index	+100	6,734	+100	4,775
Russian Trading System Index	-50	-3,367	-50	-2,387

The effect on equity (as a result of change in fair value of debt instruments recognized as available for sale as of 31 December 2009 and 2008) due to a reasonably possible change in bonds' quotes, with all other variables held constant, is as follows:

Quoted market price	*Change in yield to maturity in basis points 2009*	*Effect on equity 2009*	*Change in yield to maturity in basis points 2008*	*Effect on equity 2008*
Quoted market price	+100	(1,152)	+100	(1,022)
Quoted market price	-50	604	-50	633

Business risks

The Bank's business risks include strategic, legal and reputation risks.

Strategic risk is a risk of losses which the Bank may incur as result of mistakes in making decisions, defining the Bank's business and development strategy, and is expressed in the following:

- Inadequate accounting for potential threats to the Bank's operation;
- Incorrect or insufficiently reasoned definition of perspective business areas;
- Lack or insufficient resources required (financial, material and technical, human resources) and organizational activities (management decisions).

Legal risk is a risk of losses, which the Bank may incur due to:

- the Bank's non-compliance with the legislation and other regulations of the country of residence and country of placement of funds, and agreements entered into;
- lack of due care exercised by the Bank's lawyers in the course of preparation of contractual documents failing to provide full protection of the Bank's interests;
- misconduct of counterparties to the agreements entered into;
- untimely or unqualified protection of the Bank's interest in court;
- untimely or unqualified preparation and codification of the Bank's regulations, including those related to risk management.

Risk of the Bank's business reputation loss (reputation risk) is a risk of loss arising from deterioration of the public opinion related to the Bank's financial stability, quality of its services and nature of its business in general resulting in loss of clients (counterparties).

The Bank has developed special procedures and takes measures to minimize adverse effect of business risks for the Bank.

(Thousands of Euros)

22. Fair values of financial instruments

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2009	*Fair value 2009*	*Carrying amount 2008*	*Fair value 2008*
Financial assets				
Cash and cash equivalents	7,489	7,489	6,876	6,876
Deposits with banks and other financial institutions	132,277	132,277	105,924	105,924
Loans to customers	75,891	75,891	99,192	99,192
Held-to-maturity investment securities	377	276	381	391
Financial liabilities				
Due from banks and other financial institutions	55	55	9,894	9,894
Current customer accounts	2,425	2,425	2,835	2,835

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost is estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and deposits with banks is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

Financial instruments recorded at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Level 1 2009	*Level 2 2009*	*Level 3 2009*	*Total 2009*
Financial assets				
Combined financial instruments	–	13,757	–	**13,757**
Available-for-sale investment securities	30,989	–	–	**30,989**
Financial liabilities				
Financial instruments held for trading purposes	21	–	–	**21**

	Level 1 2008	*Level 2 2008*	*Level 3 2008*	*Total 2008*
Financial assets				
Combined financial instruments	–	21,324	–	**21,324**
Available-for-sale investment securities	19,812	–	–	**19,812**
Available-for-sale investment securities pledged under repurchase agreements	14,553	–	–	**14,553**
Financial liabilities				
Financial instruments held for trading purposes	68,263	–	–	**68,263**
Combined financial instruments	–	2,000	–	**2,000**

(Thousands of Euros)

23. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", 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 operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Bank entered into transactions with related parties on conditions similar to those, which prevail in transactions between independent parties.

In addition to monetary compensations, the bank provides non-monetary compensations to key management personnel.

Other related parties include companies under state control in the Bank's member countries.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for 2009 and 2008 are as follows:

		2009		***2008***	
	Related party	***Carrying amount***	***Average interest rate %***	***Carrying amount***	***Average interest rate %***
Balance sheet					
Cash and cash equivalents	*Other related parties*	235	0.49	477	0.3
Deposits with banks and other financial institutions	*Other related parties*	6,944	10.5	10,348	5.7
Current customer accounts	*Key management personnel*	216	1.33	92	5
Other liabilities	*Other related parties*	361	4.0	20	4

	Related party	***2009*** ***Income/ (expense)***	***2008*** ***Income/ (expense)***
Income statement			
Interest income	*Other related parties*	941	1,545
Fee and commission income	*Other related parties*	127	143
Employee benefits	*Key management personnel*	(325)	(408)
Compensation for travel expenses and medical insurance	*Key management personnel*	(286)	(52)
Interest expenses on current customer accounts	*Key management personnel*	(11)	(57)

	Related party	***2009*** ***Off-balance sheet amount***	***2008*** ***Off-balance sheet amount***
Off-balance sheet instruments			
Guarantees received	*Other related parties*	486	494

24. Capital adequacy

Capital adequacy ratio is the most important financial indicator characterizing credibility of the credit institutions and is estimated as ratio of capital base to risk weighted assets expressed as a percentage. Approval of the capital adequacy ratio is the sole power of the Bank's Board of Directors.

The Basel Committee on Banking Regulations recommends maintaining the ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2009, this minimum level was 8% (2008: 8%).

(Thousands of Euros)

24. Capital adequacy (continued)

Taking into account the Bank's status, the structure of the Bank's member countries and respective decision of the Board of Directors, the Bank maintains the capital adequacy ratio at the level not less than 25% as of 31 December 2009 (2008: 25%).

Therefore, the Bank monitors the capital adequacy ratio, computed in accordance with the Basel Capital Accord (commonly known as Basel I) as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007).

The following table shows the composition of the Bank's capital position computed in accordance with the Basel Accord, as of 31 December 2009 and 2008.

	2009	*2008*
Tier 1 capital	**289,502**	**229,215**
Paid-in capital	214,495	214,495
Retained earnings	75,007	14,720
Tier 2 capital	**3,951**	**(9,748)**
Available-for-sale investment securities revaluation reserve	3,951	(9,748)
Total regulatory capital	**293,453**	**219,467**
Risk-weighted assets:		
Banking book	143,115	162,222
Trading book	68,245	120,977
Total risk-weighted assets	**211,360**	**283,199**
Total capital expressed as a percentage of risk-weighted assets ("capital adequacy ratio")	138.84%	77.50%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	136.97%	80.94%