Translation from original Russian version

International Investment Bank

Financial Statements

Year ended 31 December 2010

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 the International Investment Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2010, 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 information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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. These 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 the International Investment Bank as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

15 March 2011

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

(Thousands of Euros)

	Note	2010	2009
Assets			
Cash and cash equivalents	4	2,529	7,394
Deposits with banks and other financial institutions	5	117,246	132,277
Financial instruments at fair value through profit or loss:			
- *Combined financial instruments*	6	15,732	13,757
Available-for-sale investment securities:			
- *Owned by the Bank*	7	62,182	30,989
Held-to-maturity investment securities	8	407	377
Loans to customers	9	55,052	75,891
Investment property	10	47,951	15,667
Property and equipment	11	47,512	23,105
Other assets	12	2,138	1,491
Total assets		**350,749**	**300,948**
Liabilities			
Due from banks and other financial institutions	13	982	58
Current customer accounts		2,254	2,425
Financial instruments at fair value through profit or loss:			
- *Financial instruments held for trading*	6	–	21
Other liabilities	12	6,376	4,991
Total liabilities		**9,612**	**7,495**
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		553	3,951
Revaluation reserve for property and equipment		27,845	–
Retained earnings at the beginning of the year		75,007	14,720
Net income for the year		23,237	60,287
Total equity		**341,137**	**293,453**
Total equity and liabilities		**350,749**	**300,948**

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

Vasily V. Kirpichev — Chairman of the Management Board

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

15 March 2011

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

INCOME STATEMENT

For the year ended 31 December 2010

(Thousands of Euros)

	Note	*2010*	*2009*
Interest income	18	8,256	14,861
Interest expenses	18	(9)	(71)
Net interest income		**8,247**	**14,790**
(Allowance) for loan impairment	9	(15,393)	(43,074)
Net interest income after allowance for loan impairment		**(7,146)**	**(28,284)**
Fees and commission income		361	334
Fee and commission expense		(80)	(86)
Net fee and commission income		**281**	**248**
Net gains/(losses) from foreign currencies	19	854	(3,996)
Net gains/(losses) from financial instruments at fair value through profit or loss			
- *Financial instruments held for trading*		(50)	65,018
- *Coupon income from combined financial instruments*		2,301	4,625
- *Net gains from combined financial instruments*		1,970	25,318
Net gains from available-for-sale investment securities		3,014	2,470
Income from lease of investment property	10	6,153	6,201
Net gains from revaluation of investment property	10	28,982	–
Other income		122	59
Net non-interest income		**43,346**	**99,695**
Operating income		**36,481**	**71,659**
(Provision) for impairment of other assets	12	(133)	–
General and administrative expenses	20	(12,444)	(10,944)
Other operating expenses arising from banking transactions		(667)	(428)
Operating expense		**(13,244)**	**(11,372)**
Net income for the year		**23,237**	**60,287**

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

(Thousands of Euros)

	2010	*2009*
Net income for the year	**23,237**	**60,287**
Other comprehensive income/(loss)		
Net (losses)/gains from revaluation of available-for-sale investment securities	(3,398)	13,699
Revaluation reserve for property and equipment	27,845	–
Total other comprehensive income	**24,447**	**13,699**
Total comprehensive income for the year	**47,684**	**73,986**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

(Thousands of Euros)

	Subscribed capital	*Callable capital*	*Revaluation reserve for investment securities available for sale*	*Revaluation reserve for property and equipment*	*Retained earnings*	*Total equity*
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
At 31 December 2009	**1,300,000**	**(1,085,505)**	**3,951**	**–**	**75,007**	**293,453**
Total comprehensive income	–	–	(3,398)	27,845	23,237	47,684
At 31 December 2010	**1,300,000**	**(1,085,505)**	**553**	**27,845**	**98,244**	**341,137**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

(Thousands of Euros)

	Note	2010	2009
Cash flows from operating activities			
Interest, fees and commissions received		7,018	12,684
Interest, fees and commissions paid		(89)	(191)
Net receipts from trading in foreign currencies		(28)	(184)
General and administrative expenses		(10,427)	(8,844)
Other operating expenses arising from banking transactions		(667)	(429)
Net receipts from combined financial instruments		2,295	5,258
Cash flows from lease of investment properties		6,153	6,201
Cash flows from operating activities before changes in operating assets and liabilities		**4,255**	**14,495**
Net (increase)/decrease in operating assets			
Deposits with banks and other financial institutions		15,131	(34,219)
Financial instruments held for trading		-	(30)
Combined financial instruments		-	30,383
Loans to customers		6,603	(16,220)
Other assets		(333)	(236)
Net increase/(decrease) in operating liabilities			
Due from banks and other financial institutions		940	(10,492)
Current customer accounts		(194)	(416)
Other liabilities		804	(551)
Net cash flows from operating activities		**27,206**	**(17,286)**
Cash flows from investing activities			
Purchase of available-for-sale investment securities		(133,732)	(4,315)
Proceeds from sale and redemption of available-for-sale investment securities		103,596	23,486
Acquisition of investment property		(673)	(429)
Acquisition of property and equipment		(1,171)	(1,462)
Net cash flows from investing activities		**(31,980)**	**17,280**
Effect of exchange rate changes on cash and cash equivalents		(91)	524
Net (decrease)/increase in cash and cash equivalents		**(4,865)**	**518**
Cash and cash equivalents, beginning		**7,394**	**6,876**
Cash and cash equivalents, ending	4	**2,529**	**7,394**

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.

The Bank had an average of 148 staff employees during 2010 (2009: 194).

Member countries of the Bank

The member countries of the Bank include:

Member countries	*2010* %	*2009* %
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 their 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.

(Thousands of Euros)

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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 financial instruments are stated at fair value, and buildings and investment property are stated at revalued amounts.

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 market information, but certain areas require management estimates. Change in the assessment of these factors may affect fair value reflected in the financial statements. Management has used all available market information in estimating the fair value of financial instruments.

(Thousands of Euros)

2. Basis of preparation (continued)

General (continued)

Fair value of buildings and investment property

As disclosed in Note 3 starting from 31 December 2010 the Bank changed its accounting policy for building and investment property. Historical cost model was changed to revaluation model.

In respect to buildings the Bank monitors their value for correspondence with fair value and conducts revaluation to ensure absence of material discrepancies between the carrying amount of buildings and their fair value. The Bank's building was revalued as at 1 December 2010. The revalued building is amortized under remaining useful life starting from 1 December 2010. Change in fair value is recognized within other comprehensive income. The Bank conducts revaluation by engaging independent firm of professional appraisers, using respective valuation methodology and information on transactions with the similar property on the local market. Nevertheless, valuation results based on the stated method may not always coincide with the prices of actual transactions on the property market.

With respect to investment property the Bank monitors changes in the fair value of investment property at each reporting date to ensure absence of material discrepancies between carrying value of investment property and its fair value. The Bank's investment property was revalued as at 1 December 2010. There was no material change in fair value as at 31 December 2010. Change in fair value of investment property is recognized in the income statement. The Bank determines fair value of investment property by engaging independent firm of professional appraisers, using respective valuation methodology and information on transactions with the similar property on the local market. Nevertheless, valuation results based on the stated method may not always coincide with the prices of actual transactions on the property market.

Impairment of equity securities available for sale.

The Bank determines that available-for-sale equity investment securities 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 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 in 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 10: Investment property
- Note 11: Property and equipment
- 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

Prior to year ended 2010 the Bank consistently applied the historic cost model to value buildings and investment property. Based on the riling of the Council of the Bank of 23 November 2010 the building complex of the Bank was revalued in accordance with existing international banking business practices. In order to determine the fair value of the buildings and investment property the Bank engaged independent professional appraisers that possess relevant qualification and have relevant experience in appraising of properties of similar location and grade. The fair value of the buildings and investment property was determined at 1 December 2010 based on existing offers for similar objects available on the market.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The new accounting policy is applied prospectively from 31 December 2010 both for buildings and investment property. Due to the fact that the buildings and investment property constitute a single property complex, the management of the Bank considered impossible to determine the effect of retrospective application of the accounting policy to the investment property or the prospective application of the policy from an earlier date. The effect on the current year financial statements consists of the increase of the book value of Property and equipment and Investment property captions by 27 845 thousand euro and 28 982 thousand euro respectively, creation of the Revaluation reserve for property and equipment of 27 845 thousand euro and recognition of profit from investment property revaluation of 28 982 thousand euro.

The effect of the above noted changes is also disclosed in Notes 10 and 11.

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 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 2010.

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. This amendment will not affect the Bank's financial statements as the Bank has not entered into any such hedges.

IFRS 3, Business Combinations (Revised), and IAS 27, Consolidated and Separate Financial Statements (Revised)
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 financial results in the period that an acquisition occurs, and future reported financial 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. These changes will have no impact on the Bank's financial statements.

IFRS 2, Share-based Payment: Group Cash-settled Share-based Payment Transactions
The amendment to IFRS 2 was issued in June 2009 and becomes 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 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 recognized 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 recognize 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. This Interpretation will have no impact on the Bank's financial statements.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Improvements to IFRSs
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 April 2009 Improvements to IFRS will have no impact on the accounting policies, financial position or performance of the Bank.

- *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.
- *Amendment to IFRS 8, Operating Segments*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *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.

Standards and interpretations issued but not yet effective

Standards and interpretations issued but not yet effective

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's financial statements.

IFRS 9, Financial Instruments (Phase 1)
In November 2009 and 2010 the IASB issued the first phase of IFRS 9, *Financial Instruments*. This Standard will eventually replace *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2013. Entities may early adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements for classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortized 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. There is a new requirement for financial liabilities recognized through profit or loss using a fair value option that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income. The Bank now evaluates the impact of the adoption of the new Standard and considers the initial application date.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The Interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. The Bank expects that this Interpretation will have no impact on the Bank's financial statements.

Improvements to IFRSs
In May 2010, the IASB issued the third 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 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 Improvements to IFRS will have an impact on the accounting policies, financial position or performance of the Bank as described below.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

- *IFRS 3, Business Combinations*: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Bank applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Bank expects that other amendments to IFRS 3 will have no impact on the Bank's financial statements.
- *IFRS 7, Financial Instruments*: *Disclosures*: introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- *IAS 34, Interim Financial Reporting*: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Bank.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

Amendments to IFRS 7, Financial Instruments: Disclosures
The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Bank expects that these amendments will have no impact on the Bank's financial position or performance.

Amendments to IAS 12, Income Taxes – Deferred tax: Recovery of Underlying Assets
In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. This amendment will have no impact on the Bank's financial statements.

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 reporting 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 assets.

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.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Financial instruments (continued)

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.

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 reporting 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 is used 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 reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting 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 reporting date as adjusted for market conditions and the creditworthiness of the counterparty.

(Thousands of Euros)

3. Summary of accounting policies (continued)

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.

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 recognized 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 recognized in the income statement.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is 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.

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 reporting 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 income statement; increases in their fair value after impairment are recognized 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.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the income statement. The obligation to return them is recorded at fair value as a trading liability.

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 fair value with changes in their fair value recognized in profit or loss. Earned rental income is recognized in the income statement as income from lease of investment property. Gains and losses resulting from changes in the fair value of investment property are taken to the financial result and recorded as gains or losses from revaluation and disposal of investment property.

Subsequent costs are capitalized only when it is probable that future economic benefits will flow from the asset and its value can be measured reliably. If there is a change in use of an investment property, it is reclassified to property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses, excluding buildings that are recorded at revalued amounts, as described below.
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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is recognized in other comprehensive income, except to the extent that it reverses a revaluation deficit of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

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

(Thousands of Euros)

3. Summary of accounting policies (continued)

Intangible assets

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

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

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.

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

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Recognition of income and expenses

Interest income and expense

For all financial instruments measured at amortized cost and interest-bearing securities classified as trading or available for sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

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.

(Thousands of Euros)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income and expense

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and loan and deposit fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Fees earned for the provision of transaction services are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission expenses comprise commissions on securities transactions and commissions on cash settlement transactions. Commissions paid on purchase of securities designated as financial instruments at fair value through profit or loss are recognized in the income statement at the purchase date. Commissions paid on all other purchases of securities are recognized as an adjustment to the carrying amount of the instrument with corresponding adjustment to its effective yield.

Commissions on cash settlement transactions are recorded in the income statement at the date when the relevant service is provided.

Dividend income

Income is recognized when the Bank's right to receive the payment is established.

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 income from disposal of such financial instruments and change in their fair value.

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 include realized gains and losses on disposal of available-for-sale investment securities.

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:

	2010	*2009*
Cash on hand	177	58
Nostro accounts with banks and other financial institutions	2,352	7,336
Cash and cash equivalents	**2,529**	**7,394**

(Thousands of Euros)

5. Deposits with banks and other financial institutions

Deposits with banks and other financial institutions comprise:

	2010	*2009*
Term deposits with banks	113,107	112,146
Credit rating from AA- to AA+	–	12,004
Credit rating from A- to A+	97,082	98,056
Credit rating from BBB- to BBB+	6,000	2,086
No credit rating	10,025	–
Reverse repo agreements	4,139	10,090
No credit rating	4,139	10,090
Security deposits on transactions with combined financial instruments	–	10,041
Credit rating from AA- to AA+	–	10,041
Deposits with banks and other financial institutions	**117,246**	**132,277**

The Bank has reverse repo agreements with the Central Cooperative Bank, Sophia. The subject of these agreements is investment-rated sovereign Bulgarian Eurobonds. The fair value of the Eurobonds is EUR 4,864 thousand as at 31 December 2010. As at 31 December 2009, the Bank entered into 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 was EUR 11,900 thousand.

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. 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.

As at 31 December 2010, deposits with banks in the Republic of Cuba made before 1990 amount to EUR 34,774 thousand (2009 - EUR 33,255 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 34,774 thousand as at 31 December 2010 (2009 - EUR 33,255 thousand).

Republic of Cuba	*2010*	*2009*
Term deposits with banks	34,774	33,255
No credit rating	34,774	33,255
	34,774	**33,255**
Less: allowance for impairment	(34,774)	(33,255)
Deposits with banks and other financial institutions	**–**	**–**

Information on change in the allowance for impairment of deposits with banks in the Republic of Cuba:

	2010	*2009*
At 1 January	**33,255**	**33,205**
Change in allowance resulting from changes in exchange rates	1,519	50
At 31 December	**34,774**	**33,255**

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 2010, the Bank has no counterparties each accounting for over 10% of the Bank's total deposits with banks and other financial institutions (2009 – six counterparties accounting for over EUR 90,051 thousand).

(Thousands of Euros)

6. Financial instruments at fair value through profit or loss

Combined instruments comprise:

	2010	*2009*
Quoted first-to-default credit linked notes		
Note issued by JP Morgan Chase Bank, N. A. London branch	10,496	9,499
Quoted collaterized debt obligations		
Note issued by Salisbury International Investment Ltd	5,236	4,258
Combined financial instruments	**15,732**	**13,757**

Financial assets held for trading comprise:

	2010	*2009*
Derivative financial instruments		
Forward exchange foreign contracts	–	(21)
Financial instruments held for trading	**–**	**(21)**

Combined financial instruments

First-to-default credit linked notes

First-to-default credit linked note represents Euro-denominated note with the fixed coupon rate of 16% APR and a total par value of EUR 10,000 thousand (2009 - EUR 10,000 thousand) issued by a major international bank 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 a security deposit with the bank issuing first-to-default credit linked notes. In the event of default on any base bond, the bank issuing the first-to-default credit linked note may transfer the bonds in default to the Bank at par value in the amount equal to the sum of the total par value of the first-to-default credit linked note held by the Bank and the security deposit, and no further payments on such liabilities will be made in favor of the Bank in this case.

As at 31 December 2009, the security deposit with the bank issuing the first-to-default credit linked note totaled EUR 10,000 thousand at par (Note 5).

Collaterized debt obligations

Collaterized debt obligation represents a Euro-denominated note with a floating coupon rate based on 3 month LIBOR plus 10% APR and a total par value of EUR 7,500 thousand issued by a special purpose vehicle. Yield on this note depends on yield on securities that are collateral for such note. Defaults of the issuers whose securities are included in the basket of assets result in decrease in the amount of principal debt under collaterized debt obligation. As a result of the default of Controladora Comercial Mexicana SAB, the par value of the debt obligation of Salisbury International Investment Ltd decreased from EUR 7,500 thousand as of 31 December 2009 to EUR 6,515 thousand as of 31 December 2010 .

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.

	2010			*2009*		
	Notional principal	*Fair value*		*Notional principal*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Forward exchange foreign contracts						
For a period of less than three months	–	–	–	2,100	–	21
Forward exchange foreign 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:

	2010	*2009*
Quoted debt securities		
Eurobonds of Gazprom	6,794	16,851
Eurobonds of VTB Capital	6,162	–
German government bonds	5,725	–
Moscow government Eurobonds	5,446	–
Hungarian government bonds	5,258	–
Bulgarian government bonds	5,038	1,163
Slovak government bonds	4,762	1,622
Eurobonds of Transneft	4,267	–
Romanian government bonds	4,198	–
Polish government bonds	3,066	–
Eurobonds of Czech Energy Company	2,134	–
Czech government bonds	1,904	1,620
Bonds of Russian Agricultural Bank	1,241	–
Eurobonds of the Trade and Development Bank of Mongolia	1,171	–
Bonds of Russian Railways	951	–
Bonds of Lukoil	691	–
Bonds of the Ministry of Finance of the Russian Federation	–	3,745
Romanian government bonds	–	2,116
Total quoted debt securities	**58,808**	**27,117**
Quoted equity instruments		
ADR on shares of JSC VimpelCom	3,374	3,872
Total quoted equity instruments	**3,374**	**3,872**
Available-for-sale investment securities	**62,182**	**30,989**

8. Held-to-maturity investment securities

Held-to-maturity investment securities comprise:

	2010	*2009*
Quoted debt securities		
Eurobonds of Rosbank International Finance B.V.	407	377
Held-to-maturity investment securities	**407**	**377**

9. Loans to customers

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

	2010	*2009*
Russian Federation	110,911	116,639
Mongolia	17,963	18,317
Republic of Bulgaria	2,880	2,867
Slovak Republic	1,001	–
Total loans to customers	**132,755**	**137,823**
Less: allowance for loan impairment	(77,703)	(61,932)
Loans to customers	**55,052**	**75,891**

	2010	*2009*
Republic of Cuba	44,043	41,708
Total loans to customers	**44,043**	**41,708**
Less: allowance for loan impairment	(44,043)	(41,708)
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 2010, total receivables relating to these loans amount to EUR 44,043 thousand (2009 - EUR 41,708 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 44,043 thousand as at 31 December 2010 (2009 - EUR 41,708 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 2010 and 2009.

	2010	*2009*
Total loans for which the principal and/or interest is overdue	90,630	68,161
Total loans to customers	**90,630**	**68,161**
Less: allowance for loan impairment	(75,290)	(57,509)
Loans to customers	**15,340**	**10,652**

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

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2010	**53,558**	**5,760**	**2,614**	**61,932**
Net charge for the year	18,412	(413)	(2,606)	**15,393**
Change in allowance resulting from changes in exchange rates	313	65	–	**378**
At 31 December 2010	**72,283**	**5,412**	**8**	**77,703**
Individual impairment	**72,283**	**5,412**	**8**	**77,703**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**110,911**	**11,963**	**2,880**	**125,754**

	Russian Federation	*Mongolia*	*Republic of Bulgaria*	*Total*
At 1 January 2009	**16,821**	**864**	**1,256**	**18,941**
Net charge for the year	36,806	4,910	1,358	**43,074**
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	**71,413**	**15,455**	**2,867**	**89,735**

As of 31 December 2010 and 2009 there were no overdue but not impaired loans in Bank's portfolio.

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 551 thousand as at 31 December 2010 (2009 – by EUR 759 thousand).

(Thousands of Euros)

9. Loans to customers (continued)

Concentration of loans to customers

At 31 December 2010, loans to three borrowers (2009 - three) with the total amount of loans to each of the three borrowers exceeded 10% of total loans to customers. As at 31 December 2010, these loans total comprised EUR 54,315 thousand (2009 - EUR 57,906 thousand) and an allowance of EUR 24,332 thousand has been made for them (2009 - EUR 19,636 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 2010 and 31 December 2009:

	2010		*2009*	
	Loans net of impairment allowance	***Share in the total loans, %***	***Loans net of impairment allowance***	***Share in the total loans, %***
Pledge of real property (mortgage) and title	23,162	42.1	31,766	41.8
Pledge of equipment and goods in turnover	28,423	51.6	34,283	45.2
Pledge of rights of demand and construction	3,153	5.7	9,840	13.0
Other	314	0.6	2	–
Total	**55,052**	**100.0**	**75,891**	**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.

As of 31 December 2010, fair value of collateral based on which impaired loans are provided for, amounted to EUR 15,623 thousand (2009 – EUR 2,884 thousand).

Analysis of loans by industry

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

	2010	*2009*
Construction of buildings	45,421	47,468
Production, transmission and distribution of electricity, gas and steam	32,117	35,707
Food and beverage	25,907	26,622
Mining	12,949	13,277
Timber manufacturing	10,005	9,519
Specialized construction	3,471	2,470
Rubber and plastic manufacturing	1,319	1,305
Air transport	915	850
Leather manufacturing	651	605
	132,755	**137,823**
Less: allowance for loan impairment	(77,703)	(61,932)
Loans to customers	**55,052**	**75,891**

(Thousands of Euros)

10. Investment property

In 2010 and 2009, the following changes occurred in the cost of property under operating lease:

	2010	*2009*
Cost		
1 January	**25,089**	**25,103**
Additions	674	429
Disposals	–	(13)
Accounting for accumulated depreciation at revaluation	(9,386)	–
Transfers	2,592	(430)
Effect of revaluation	28,982	–
31 December	**47,951**	**25,089**
Depreciation		
1 January	**(9,422)**	**(9,016)**
Depreciation charge	(545)	(576)
Disposals	–	12
Accounting for accumulated depreciation at revaluation	9,386	–
Transfers	581	158
31 December	–	**(9,422)**
Net book value as at 31 December	**47,951**	**15,667**

The Bank rents buildings under operating lease agreements. In 2010, the Bank's income from lease of investment property amounted to EUR 6,153 thousand (2009 – EUR 6,201 thousand).

The Bank engaged an independent appraiser to determine the fair value of its buildings. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. Fair value is determined by reference to market-based evidence. The date of the revaluation was 1 December 2010. If the investment property was measured using the cost model, the carrying amounts as of 31 December 2010 would be as follows:

	2010	*2009*
Cost	28,361	25,089
Accumulated depreciation	(9,536)	(9,422)
Net book value	**18,825**	**15,667**

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 2010	**31,845**	**4,977**	**2,121**	**551**	**592**	**40,086**
Additions	583	118	579	6	–	**1,286**
Disposals	–	–	–	(55)	(39)	**(94)**
Accounting for accumulated depreciation at revaluation	(9,018)	–	–	–	–	**(9,018)**
Transfers	(5,185)	2,593	–	–	–	**(2,592)**
Effect of revaluation	27,845	–	–	–	–	**27,845**
31 December 2010	**46,070**	**7,688**	**2,700**	**502**	**553**	**57,513**
Accumulated depreciation						
1 January 2010	**(10,332)**	**(4,602)**	**(1,291)**	**(372)**	**(384)**	**(16,981)**
Depreciation charge	(707)	(149)	(573)	(23)	(99)	**(1,551)**
Disposals	–	–	–	55	39	**94**
Transfers	1,901	(2,482)	–	–	–	**(581)**
Accounting for accumulated depreciation at revaluation	9,018	–	–	–	–	**9,018**
31 December 2010	**(120)**	**(7,233)**	**(1,864)**	**(340)**	**(444)**	**(10,001)**
Net book value						
At 31 December 2009	**21,513**	**375**	**830**	**179**	**208**	**23,105**
At 31 December 2010	**45,950**	**455**	**836**	**162**	**109**	**47,512**

(Thousands of Euros)

11. Property and equipment (continued)

The movements in property and equipment for 2009 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						
At 31 December 2008	**21,308**	**510**	**514**	**185**	**323**	**22,840**
At 31 December 2009	**21,513**	**375**	**830**	**179**	**208**	**23,105**

As at 31 December 2010, the cost of fully depreciated property and equipment still used by the Bank is EUR 7,295 thousand (2009 - EUR 6,617 thousand).

The Bank engaged an independent appraiser to determine the fair value of its buildings. The valuation services were performed by an independent firm of professional appraisers which have acknowledged qualification and relevant professional experience in appraising real property of a similar category and in a similar location. Fair value is determined by reference to market-based evidence.

The date of the revaluation was 1 December 2010. If the buildings were measured using the cost model, the carrying amounts as of 31 December 2010 would be as follows:

	2010	*2009*
Cost	38,267	40,086
Accumulated depreciation	(18,670)	(16,981)
Net book value	**19,597**	**23,105**

12. Other assets and liabilities

Other assets comprise:

	2010	*2009*
Advance payments	1,809	1,344
Other accounts receivable	462	147
	2,271	**1,491**
Less: provision for impairment of other assets	(133)	–
Other assets	**2,138**	**1,491**

(Thousands of Euros)

12. Other assets and liabilities (continued)

Other liabilities comprise:

	2010	*2009*
Other accounts payable	3,854	2,669
Provision for potential VAT payments related to income from leases	1,927	1,820
Settlements with employees	475	315
Other	120	187
Other liabilities	**6,376**	**4,991**

13. Due from banks and other financial institutions

Due from banks and other financial institutions comprise:

	2010	*2009*
Correspondent accounts of banks	982	58
Due from banks and other financial institutions	**982**	**58**

14. Equity

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.

Revaluation reserve for available-for-sale investment securities

The movements in the revaluation reserve for available-for-sale investment securities and revaluation reserve for property and equipment were as follows:

	Revaluation reserve for available-for-sale investment securities	***Revaluation reserve for property and equipment***
At 1 January 2009	**(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**	–
Net unrealized losses on available-for-sale investment securities	(404)	–
Realized gains on available-for-sale investment securities reclassified to the income statement	(3,014)	–
Revaluation of buildings	–	27,845
At 31 December 2010	**533**	**27,845**

Revaluation reserve for available-for-sale investment securities

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

Revaluation reserve for property and equipment

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

(Thousands of Euros)

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 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 a group of buildings, equipment and car park as well as liability insurance against damages caused by operating assets of a hazardous nature. However, the Bank did not obtain insurance coverage related to temporarily discontinued operations or the Bank's obligations to third parties.

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:

	2010	*2009*
Credit related commitments		
Undrawn loan facilities	11,545	8,532
Commitments and contingencies	**11,545**	**8,532**

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.

	2010	*2009*
Less than 1 year	4,360	5,026
Leases	**4,360**	**5,026**

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.

(Thousands of Euros)

17. Loan and deposit trust operations (continued)

"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 2010 amounted to EUR 238 thousand (2009 - EUR 268 thousand).

18. Interest income and interest expense

Net interest income comprises:

	2010	*2009*
Loans to customers	5,632	10,977
Available-for-sale investment securities and investment securities held to maturity	1,865	2,921
Deposits with banks and other financial institutions	759	963
Interest income	**8,256**	**14,861**
Due from banks and other financial institutions	–	(29)
Current customer accounts	(9)	(42)
Interest expenses	**(9)**	**(71)**
Net interest income	**8,247**	**14,790**

Interest income accrued on impaired loans as at 31 December 2010 was EUR 4,902 thousand (2009 – EUR 6,982 thousand).

19. Net gain/ (loss) from foreign currencies

Net gains from foreign currencies comprised:

	2010	*2009*
Net gain/(loss) from revaluation of assets and liabilities in foreign currencies	882	(3,812)
Net (loss)/gain from trading	(28)	(184)
Net gain/(loss) from foreign currencies	**854**	**(3,996)**

(Thousands of Euros)

20. General and administrative expenses

General and administrative expenses comprise:

	2010	*2009*
Employee compensations and employment taxes	6,872	6,039
Administration and management	3,052	2,665
Depreciation charge	2,096	1,913
Other	424	327
General and administrative expenses	**12,444**	**10,944**

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.

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

(Thousands of Euros)

21. Risk management (continued)

The Credit Committee is the Management 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 Management 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 Management 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 Management 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 Management Board. The Management Board is responsible for all direct credit risk exposures up to EUR 10,000 thousand and up to 7 years. Direct credit risks exposures of over EUR 10,000 thousand or above 7 years should be approved by the Council of the Bank.

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).

(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

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 corporate loan/credit application and appropriate project documents are reviewed by the Credit Department. In case of a positive decision, the set of documents from the Credit Department required for reviewing the loan/credit application shall be analyzed by the Legal Department, Risk Management Department, Security Department, Strategic Planning and Analysis Department, and Internal Control and Compliance Department. For the purpose of comprehensive analysis of the loan/credit application received from the Credit Department, the Legal Department and Risk Management Department jointly prepare Description of the Investment Transaction. The loan/credit application is subject to review by the Credit Committee based on the Description of the Investment Transaction, report of the Security Department and Strategic Planning and Analysis 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. The procedure of making lending decisions comprises the following steps: Step 1 includes reviewing application by the Credit Committee; Step 2 includes making decision by the Management Board of the Bank (if such issue falls within its competence); Step 3 includes sending a set of respective documents approved by the Management Board of the Bank to the member countries in order to obtain the final approval from the country of origin of the borrower; Step 4 includes making decision by the Council of the Bank (if such issue falls within its competence).

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 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.

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.

(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

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 creates 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.

The table below shows information on credit risk geographical concentration as of 31 December 2010 and 2009:

					2010				
	Russian Federation	***Czech Republic***	***Republic of Bulgaria***	***Romania***	***Slovak Republic***	***Republic of Cuba***	***Mongolia***	***Other countries***	***Total***
Assets:									
Cash and cash equivalents	404	–	–	–	–	–	–	2,125	**2,529**
Deposits with banks and other financial institutions	10,025	9,008	10,139	–	20,028	–	–	68,046	**117,246**
Financial instruments at fair value through profit or loss:									
-Combined financial instruments	–	–	–	–	–	–	–	15,732	**15,732**
Available-for-sale investment securities:									
-Owned by the Bank	28,926	4,038	5,038	4,198	4,762	–	1,171	14,049	**62,182**
Held-to-maturity investment securities	407	–	–	–	–	–	–	–	**407**
Loans to customers	38,628	–	2,872	–	1001	–	12,551	–	**55,052**
Other assets	1,654	–	–	–	–	22	459	3	**2,138**
Total	**80,044**	**13,046**	**18,049**	**4,198**	**25,791**	**22**	**14,181**	**99,955**	**255,286**

(Thousands of Euros)

21. Risk management (continued)

Credit risk (continued)

	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**
Held-to-maturity investment securities	377	–	–	–	–		–	–	**377**
Loans to customers	63,081	–	253	–	–	–	12,557	–	**75,891**
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**

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

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 is based on a 5 grade system of risk factor categories: standard, sub-standard, doubtful, impaired and uncollectible. The risk factor category 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, compliance with other terms and conditions of the loan agreement, strength of positions in the market, competitive potential, administrative resources, 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 2010:

	Loan amount	***Impairment***	***Loan amount, including impairment***	***Impairment to loan amount ratio, %***
Loans without any signs of impairment identified				
Standard loans				
- *Mongolia*	6,000	–	6,000	–
- *Slovak Republic*	1,001	–	1,001	–
Impaired loans				
Loans not past due				
- *Russian Federation*	35,125	(2,413)	32,712	7
Loans overdue from 90 days to 1 year				
- *Russian Federation*	25,635	(19,719)	5,916	77
- *Mongolia*	11,048	(4,497)	6,551	41
Uncollectible loans				
- *Russian Federation*	50,151	(50,151)	–	100
- *Republic of Bulgaria*	2,880	(8)	2,872	0
- *Mongolia*	915	(915)	–	100
Total loans to customers	**132,755**	**(77,703)**	**55,052**	**59**

(Thousands of Euros)

21. Risk management (continued)

Credit quality of financial assets

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 loans				
- *Russian Federation*	45,226	–	45,226	–
- *Mongolia*	2,862	–	2,862	–
Impaired loans				
Loans not past due				
- *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**

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 2010, loans in the amount of EUR 44,172 thousand (before allowance for impairment) were restructured (2009-EUR 15,463 thousand).

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.

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.

(Thousands of Euros)

21. Risk management (continued)

Liquidity risk (continued)

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 2010 and 31 December 2009.

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).

	2010							
	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	2,529	–	–	–	–	–	–	**2,529**
Deposits with banks and other financial institutions	48,201	69,045	–	–	–	–	–	**117,246**
Financial instruments at fair value through profit or loss:								
-Combined financial instruments	143	10,496	5,093	–	–	–	–	**15,732**
Available-for-sale investment securities:								
-Owned by the Bank	1,265	456	5,629	23,870	27,588	3,374	–	**62,182**
Held-to-maturity investment securities	–	–	20	387	–	–	–	**407**
Loans to customers less allowance for impairment	1,374	1,532	6,320	30,486	–	–	15,340	**55,052**
Investment property	–	–	–	–	–	47,951	–	**47,951**
Property and equipment	–	–	–	–	–	47,512	–	**47,512**
Other assets	915	180	1,043	–	–	–	–	**2,138**
	54,427	**81,709**	**18,105**	**54,743**	**27,588**	**98,837**	**15,340**	**350,749**
Liabilities:								
Due from banks and other financial institutions	982							**982**
Current customer accounts	2,254	–	–	–	–	–	–	**2,254**
Other liabilities	2,573	255	3,548	–	–	–	–	**6,376**
	5,809	**255**	**3,548**	–	–	–	–	**9,612**
Net position	**48,618**	**81,454**	**14,557**	**54,743**	**27,588**	**98,837**	**15,340**	**341,137**
Accumulated net position	**48,618**	**130,072**	**144,629**	**199,372**	**226,960**	**325,797**	**341,137**	

(Thousands of Euros)

21. Risk management (continued)

Liquidity risk (continued)

	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**
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**
Loans to customers less allowance for impairment	486	1,438	11,626	44,961	6,728	–	10,652	**75,891**
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	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**	

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 latest date it can be drawn down.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2010	–	–	11,554	–	**11,554**
2009	–	–	4,783	3,749	**8,532**

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 is connected to fluctuations on the three main economic markets: debt securities market, equities market, FX and commodities markets, which are subject to general and specific market movements.

The Board of the Bank performs overall management of market risk in line with the General Risk Management Policies approved by the Bank's Council.

(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 to the Management Board recommendations on management of market risks, as well as assets and liabilities.

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 economic crisis these activities on market risk management shall be hardened.

Therefore, the regulatory base is enhanced, including setting new stop-out and stop-loss limits and sublimits, subject to positions taken and the limit of overall portfolio losses.

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; hedging changes in foreign currency position through use of derivative instruments; 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 makes adjustments to the asset and liability currency structure to minimize the currency risk. The currency risk is managed through:

- establishing of 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 2010 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 income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on 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, % 2010*	*Effect on profit 2010*	*Change in currency rate, % 2009*	*Effect on profit 2009*
USD	+11/-11	884/(695)	+12/-12	1,055/(829)

(Thousands of Euros)

21. Risk management (continued)

Currency risk **(continued)**

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

	2010				*2009*			
	EUR	***USD***	***Other currencies***	***Total***	***EUR***	***USD***	***Other currencies***	***Total***
Assets:								
Cash and cash equivalents	1,989	209	331	**2,529**	6,231	454	709	**7,394**
Deposits with banks and other financial institutions	117,246	–	–	**117,246**	130,191	–	2,086	**132,277**
Financial instruments at fair value through profit or loss								
- *Combined financial instruments*	15,732	–	–	**15,732**	13,757	–	–	**13,757**
Available-for-sale investment securities:								
- *Owned by the Bank*	52,885	6,413	2,884	**62,182**	23,371	7,618	–	**30,989**
- *Pledged under repurchase agreements*	–	–	–	–	–	–	–	**–**
Held-to-maturity investment securities	–	407	–	**407**	–	377	–	**377**
Loans to customers less allowance for impairment	55,052	–	–	**55,052**	75,891			**75,891**
Investment property	47,951	–	–	**47,951**	15,667			**15,667**
Property and equipment	47,512	–	–	**47,512**	23,105			**23,105**
Other assets	213	532	1,393	**2,138**	411	133	947	**1,491**
	338,580	**7,561**	**4,608**	**350,749**	**288,624**	**8,582**	**3,742**	**300,948**
Liabilities:								
Due from banks and other financial institutions	–	–	982	**982**	–	58	–	**58**
Current customer accounts	2,012	242		**2,254**	2,064	361	–	**2,425**
Financial instruments at fair value through profit or loss								
- *Financial instruments held for trading*	–	–	–	–	21	–	–	**21**
- *Combined financial instruments*	–	–	–	–	–	–	–	**–**
Other liabilities	1,857	834	3,685	**6,376**	1,374	429	3,188	**4,991**
	3,869	**1,076**	**4,667**	**9,612**	**3,459**	**848**	**3,188**	**7,495**
Net balance sheet position	**334,711**	**6,485**	**(59)**	**341,137**	**285,165**	**7,734**	**554**	**293,453**

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 sheet 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 the Bank's net income/ (loss) and equity for the year to movements in market interest rates (prepared on the basis of simplified scenario of a 200 basis parallel fall or rise in all yield curves and revised positions on interest-bearing assets and liabilities existing as at 31 December 2010 and 31 December 2009) may be presented as follows:

Changes in interest rates in basis points	***2010***	***2009***	***2010***	***2009***
	Sensitivity of net interest income		***Change in equity***	
200 bp parallel rise	145,358	149,323	145,358	149,323
200 bp parallel fall	(150,209)	(154,717)	(150,209)	(154,717)

(Thousands of Euros)

21. Risk management (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: limit on overall securities portfolio; limit on non-investment grade securities; maximum limit on trading and investment securities portfolio; limit on combined financial instruments portfolio; industry limits; limits by counterparty and issuer; stop-out and stop-loss limits and sublimits on the overall portfolio and individual portfolios. The equity risk is also minimized by hedging changes in the market value of securities through use of derivatives, as well as by using the delivery-versus-payment principle in settlements under securities transactions.

The effect on equity (as a result of change in fair value of equity instruments recognized as available for sale as at 31 December 2010 and 2009) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market index	*Index change 2010*	*Effect on equity 2010*	*Index change 2009*	*Effect on equity 2009*
Russian Trading System Index	+100	5,867	+100	6,734
Russian Trading System Index	-50	(2,933)	-50	(3,367)

The effect on equity (as a result of change in fair value of debt instruments recognized as available for sale as of 31 December 2010 and 2009) 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 2010*	*Effect on equity 2010*	*Change in yield to maturity in basis points 2009*	*Effect on equity 2009*
Quoted market price	+100	(2,506)	+100	(1,152)
Quoted market price	-50	1,325	-50	604

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 of 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 diligence and 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.

(Thousands of Euros)

21. Risk management (continued)

Business risks (continued)

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.

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 2010	*Fair value 2010*	*Carrying amount 2009*	*Fair value 2009*
Financial assets				
Cash and cash equivalents	2,529	2,529	7,489	7,489
Deposits with banks and other financial institutions	117,246	117,246	132,277	132,277
Loans to customers	55,052	55,052	75,891	75,891
Held-to-maturity investment securities	407	420	377	276
Financial liabilities				
Due from banks and other financial institutions	982	982	55	55
Current customer accounts	2,254	2,254	2,425	2,425

The following describes the methodologies and assumptions used to determine fair values of 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.

(Thousands of Euros)

22. Fair values of financial instruments (continued)

Financial instruments recorded at fair value (continued)

	Level 1 2010	*Level 2 2010*	*Level 3 2010*	*Total 2010*
Financial assets				
Combined financial instruments	–	15,732	–	**15,732**
Available-for-sale investment securities	62,182	–	–	**62,182**

	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	21	–	–	**21**

23. 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 as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for 2010 and 2009 are as follows:

		2010		*2009*	
	Related party	*Carrying amount*	*Average interest rate, %*	*Carrying amount*	*Average interest rate, %*
Balance sheet					
Current customer accounts	*Key management personnel*	503	0,7	216	1,33

		2010	*2009*
	Related party	*Income/ (expense)*	*Income/ (expense)*
Income statement			
Employee benefits	*Key management personnel*	(619)	(325)
Compensation for travel expenses and medical insurance	*Key management personnel*	(49)	(94)
Interest expenses on current customer accounts	*Key management personnel*	(2)	(11)

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 2010, this minimum level was 8% (2009-8%).

(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 2010 (2009 - 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 2010 and 2009.

	2010	*2009*
Tier 1 capital	**312,739**	**289,502**
Paid-in capital	214,495	214,495
Retained earnings	98,244	75,007
Tier 2 capital	**28,398**	**3,951**
Revaluation reserve for available-for-sale investment securities	553	3,951
Revaluation reserve for property and equipment	27,845	–
Total regulatory capital	**341,137**	**293,453**
Risk-weighted assets:		
Banking book	176,224	143,115
Trading book	71,953	68,245
Total risk-weighted assets	**248,177**	**211,360**
Total capital expressed as a percentage of risk-weighted assets ("capital adequacy ratio")	137.46%	138.84%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio")	126.01%	136.97%