OJSC “Belvnesheconombank”
Consolidated IFRS Financial Statements

Year ended 31 December 2010
Together with Independent Auditors’ Report

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Independent auditors' report

To the Shareholders and Supervisory Board of Open Joint Stock Company "Belvnesheconombank"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Belvnesheconombank" (hereinafter "the Bank"), which comprise the consolidated statement of financial position as of 31 December 2010, and the consolidated income statement, consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

8 April 2011

Consolidated statement of financial position

As of 31 December 2010

(Millions of Belarusian roubles)

	Notes	*2010*	*2009*
Assets			
Cash and cash equivalents	5	1,308,995	673,000
Precious metals		4,218	3,368
Amounts due from credit institutions	6	60,274	45,211
Derivative financial assets	7	41,644	47
Loans to customers	8	1,757,927	1,001,701
Investment securities:			
- available-for-sale	9	228,272	143,094
Investment in associate	10	3,977	2,497
Property and equipment and assets constructed for sale	11	172,437	131,163
Intangible assets	12	3,557	2,404
Current income tax assets		714	460
Deferred income tax assets	13	5,870	3,183
Other assets	15	54,456	34,383
Total assets		**3,642,341**	**2,040,511**
Liabilities			
Amounts due to credit institutions	16	1,320,834	204,518
Amounts due to the NBRB		149	147
Derivative financial liabilities	7	714	950
Amounts due to customers	17	1,295,126	972,435
Debt securities issued	18	171	7,135
Current income tax liabilities		1,559	974
Deferred income tax liabilities	13	18,006	7,352
Provisions	14	1,413	-
Subordinated debt	19	128,295	86,006
Other liabilities	15	38,558	25,861
Total liabilities		**2,804,825**	**1,305,378**
Equity	20		
Share capital		807,806	807,806
Share premium		904	904
Treasury shares		(237)	(237)
Additional paid-in capital		12,064	-
Unrealised gains on investment securities available-for-sale		90	-
Retained earnings/(accumulated deficit)		19,308	(72,918)
Total equity attributable to shareholders of the Bank		**839,935**	**735,555**
Non-controlling interests		(2,419)	(422)
Total equity		**837,516**	**735,133**
Total equity and liabilities		**3,642,341**	**2,040,511**

Signed and authorised for release on behalf of the Management Board of the Bank

Kallaour, Pavel Vladimirovich — Chairman of the Management Board

Kushnerova, Zinaida Stepanovna — Chief Accountant

6 April 2011

The accompanying notes on pages 7 to 49 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 31 December 2010

(Millions of Belarusian roubles)

	Notes	2010	2009
Interest income			
Loans to customers		184,047	163,687
Amounts due from credit institutions		30,917	23,180
Investment securities		31,358	5,595
		246,322	**192,462**
Interest expense			
Amounts due to customers		(67,346)	(73,932)
Amounts due to credit institutions		(22,621)	(11,828)
Debt securities issued		(289)	(752)
		(90,256)	**(86,512)**
Net interest income		**156,066**	**105,950**
Allowance for loan impairment	8	(25,566)	(19,488)
Net interest income after allowance for loan impairment		**130,500**	**86,462**
Net fee and commission income	22	51,461	41,741
Net gains from investment securities available-for-sale		70	18
Net gains/(losses) from foreign currencies:			
- dealing		77,185	46,930
- translation differences		(2,816)	(4,581)
Share of profit of associate	10	1,566	326
Other income	23	56,457	33,449
Non-interest income		**183,923**	**117,883**
Personnel expenses	24	(105,537)	(87,187)
Depreciation and amortisation	11, 12	(10,268)	(7,344)
Taxes other than income tax		(5,013)	(5,398)
Other operating expenses	24	(64,608)	(43,066)
Other impairment and provisions	14	(2,758)	29
Non-interest expense		**(188,184)**	**(142,966)**
Profit before income tax expense		**126,239**	**61,379**
Income tax expense	13	(26,233)	(23,381)
Profit for the year		**100,006**	**37,998**
Attributable to:			
- shareholders of the Bank		101,919	40,783
- non-controlling interests		(1,913)	(2,785)
		100,006	**37,998**

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Kallaour, Pavel Vladimirovich	Chairman of the Management Board
Kushnerova, Zinaida Stepanovna	Chief Accountant

6 April 2011

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Consolidated statement of comprehensive income

For the year ended 31 December 2010

(Millions of Belarusian roubles)

	2010	2009
Profit for the year	**100,006**	**37,998**
Other comprehensive income		
Unrealised gains on investment securities available-for-sale	160	18
Realised gains on investment securities available-for-sale reclassified to the income statement	(70)	(18)
Other comprehensive income for the year, net of tax	**90**	-
Total comprehensive income for the year	**100,096**	**37,998**
Attributable to:		
- shareholders of the Bank	102,009	40,783
- non-controlling interests	(1,913)	(2,785)
	100,096	**37,998**

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Kallaour, Pavel Vladimirovich — Chairman of the Management Board

Kushnerova, Zinaida Stepanovna — Chief Accountant

6 April 2011

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Consolidated statement of changes in equity

For the year ended 31 December 2010

(Millions of Belarusian roubles)

	Attributable to shareholders of the Bank							*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Treasury shares*	*Additional paid-in capital*	*Other reserves*	*Retained earnings*	*Total*		
31 December 2008	**530,272**	**904**	**(237)**	-	**-**	**(113,701)**	**417,238**	**2,270**	**419,508**
Total comprehensive income for the year						40,783	40,783	(2,785)	37,998
Issue of share capital (Note 20)	277,534						277,534		277,534
Contributions of non-controlling shareholders to subsidiaries								93	93
31 December 2009	**807,806**	**904**	**(237)**	-	**-**	**(72,918)**	**735,555**	**(422)**	**735,133**
Total comprehensive income for the year					90	101,919	102,009	(1,913)	100,096
Dividends to shareholders of the Bank (Note 20)						(9,693)	(9,693)		(9,693)
Dividends of subsidiaries						-	-	(84)	(84)
Additional paid-in capital (Note 20)				12,064			12,064		12,064
31 December 2010	**807,806**	**904**	**(237)**	**12,064**	**90**	**19,308**	**839,935**	**(2,419)**	**837,516**

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Kallaour, Pavel Vladimirovich — Chairman of the Management Board

Kushnerova, Zinaida Stepanovna — Chief Accountant

6 April 2011

The accompanying notes on pages 7 to 49 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2010

(Millions of Belarusian roubles)

	Notes	2010	2009
Net profit		**100,006**	**37,998**
Adjustments:			
Depreciation and amortisation		10,268	7,344
Changes in deferred and current income tax accrued		8,298	4,919
Allowance for loan impairment		25,566	19,488
Other impairment and provisions		2,758	(29)
Changes in fair value of derivatives		(41,834)	903
Share of profit in associate	10	(1,566)	(326)
Loss from disposal of property and equipment		5,754	374
Impairment of property and equipment		1,479	-
Translation difference		2,816	4,581
Other changes		3,198	(4,376)
Cash flows from operating activities before changes in operating assets and liabilities		**116,743**	**70,876**
Net (increase)/decrease in operating assets			
Precious metals		(850)	(1,688)
Amounts due from credit institutions		(15,884)	2,205
Loans to customers		(757,231)	35,593
Other assets		(22,976)	(2,581)
Net increase /(decrease) in operating liabilities			
Short term amounts due to credit institutions		147,776	4,677
Amounts due to the NBRB		(6)	(6,174)
Amounts due to customers		309,653	3,816
Other liabilities		12,425	2,847
Net cash from/(used in) operating activities		**(210,350)**	**109,571**
Cash flows from investing activities			
Purchase of investment securities		(198,141)	(137,497)
Proceeds from sale and redemption of investment securities		110,262	-
Dividends received		86	76
Purchase of property, equipment and intangible assets		(60,232)	(28,558)
Proceeds from sale of property and equipment		304	823
Net cash used in investing activities		**(147,721)**	**(165,156)**
Cash flows from financing activities			
Proceeds from long-term amounts due to credit institutions		1,025,640	55,702
Repayments of long-term amounts due to credit institutions		(18,944)	(7,023)
Proceeds from issue of share capital		-	277,534
Proceeds from debt securities issued		171	7,156
Redemption of debt securities issued		(7,135)	-
Dividends paid to shareholders of the Bank		(9,693)	-
Dividends paid by subsidiaries		(84)	-
Proceeds from contributions of non-controlling shareholders to subsidiary’s share capital		-	93
Net cash from financing activities		**989,955**	**333,462**
Effect of exchange rates changes on cash and cash equivalents		4,111	50,415
Net increase in cash and cash equivalents		**631,884**	**277,877**
Cash and cash equivalents, beginning		**673,000**	**344,708**
Cash and cash equivalents, ending	5	**1,308,995**	**673,000**

The accompanying notes on pages 7 to 49 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2010

(Millions of Belarusian roubles)

Additional information to the consolidated statement of cash flows:

	2010	2009
Income tax paid	(17,935)	(21,314)
Interest paid	(81,971)	(85,479)
Interest received	240,946	181,299
Dividends received	86	76

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Kushnerova, Zinaida Stepanovna	Chief Accountant

6 April 2011

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(Millions of Belarusian roubles unless otherwise stated)

1. Principal activities

OJSC “Belvnesheconombank” (the “Bank”) was formed on 12 December 1991 as an open joint-stock company under the laws of the Republic of Belarus. The Bank operates under a general banking licence issued by the National Bank of the Republic of Belarus (“NBRB”) #6 on 27 October 2006, as well as licences issued on 23 June 2010 by the Ministry of Finance of the Republic of Belarus for operations with precious metals and stock exchange transactions with securities issued on 13 July 2007.

The Bank accepts deposits from the public and extends credit, transfers payments in Belarus and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Minsk and it has 6 branches in the capital, 18 branches in major cities across the country and 3 centres of banking services. The Bank’s registered legal address is 32 Myasnikova St., 220050 Minsk, Belarus.

The Bank has the status of a Principal Member of the international payment systems - MasterCard International (from 1994) and VISA International (from1995).

OJSC “Belvnesheconombank” is a member of the deposit insurance system. The system operates under the Belarusian laws and regulations and is governed by State Corporation “Agency for Deposits Insurance”. Insurance covers Bank’s liabilities to individual depositors for the amount of 100% of each individual deposit amount in case of business failure and revocation of the NBRB banking license.

As of 31 December, the shareholders of the Bank were:

Shareholder	*2010* %	*2009* %
State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"	97.42	97.42
Other	2.58	2.58
Total	**100.00**	**100.00**

The Bank is ultimately controlled by the Russian Government.

As of 31 December 2010, members of the Board of Directors and Management Board owned 382,375 shares or 0.0063% (2009 – 380,325 or 0.006%) of the Bank’s share capital.

2. Basis of preparation

General

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

The Bank and its subsidiaries are required to maintain their records and prepare their financial statements for regulatory purposes in Belarusian roubles in accordance with Belarusian accounting and banking legislation and related instructions (“BAL”). These consolidated financial statements are based on the Bank’s BAL books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities and derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in millions of Belarusian roubles (“BYR”) unless otherwise stated.

(Millions of Belarusian roubles unless otherwise stated)

2. Basis of preparation (continued)

Inflation accounting

The Belarusian economy was considered hyperinflationary until 31 December 2005. As such, the Bank has applied IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of applying IAS 29 is that non-monetary items, including components of equity, were restated to the measuring units current at 31 December 2005 by applying the relevant inflation indices to the historical cost, and that these restated values were used as a basis for accounting in subsequent periods.

Subsidiaries

As of 31 December 2010 and 2009 the consolidated financial statements included the following major subsidiaries:

Subsidiary	*Ownership/ voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
Belvneshstrakh	100	Belarus	17 October 1994	Insurance	17 October 1994
Mezhdunarodny energetichesky centre (in 2009 named as Vneshenergoservice)	52.1	Belarus	3 May 2007	Manufacturing and wholesale of energy	3 May 2007
Mir fitnesa (in 2009 named as Vneshstroyinvest)	51	Belarus	4 September 2002	Fitness services	4 September 2002
Vnesheconomstroy	51	Belarus	4 September 2002	Real estate transactions	4 September 2002
Belinterfinance	51	Belarus	13 November 1992	Wholesale of agricultural equipment, agricultural services	13 November 1992
Interecon-N	55.9	Belarus	24 October 1995	Leasing	24 October 1995
Orda	51	Belarus	10 March 2004	Agricultural activities	10 March 2004

3. Summary of accounting policies

Changes in accounting policies

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

IAS 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.

Amendments resulting from amendments to IFRSs, new IFRIC Interpretations and Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

Improvements to IFRSs:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 8 Operating Segment Information
- IAS 7 Statement of Cash Flows
- IAS 36 Impairment of Assets.

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRSs and new IFRIC Interpretation:

- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

Subsidiaries

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Non-controlling interest is the interest in subsidiaries not attributable, directly or indirectly to the Bank. Non-controlling interest at the acquisition date is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This choice is made by the acquirer for each business combination. Non-controlling interest at the subsequent reporting date represents the initially recognised amount of non-controlling interest at the acquisition date and the non-controlling interest's portion of movements in comprehensive income and equity since the date of the combination. Non-controlling interest is presented as a separate component within the Bank's equity.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to non-controlling interests even if that results in a deficit balance.

If the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

‘Day 1’ profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a ‘Day 1’ profit) in the consolidated income statement. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three other categories. After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

The fair value for financial instruments traded in an active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and offer price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Financial assets (continued)

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRB, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Gold and other precious metals are recorded at NBRB bid prices, which approximate fair values. Changes in the NBRB bid prices are recorded as translation differences from precious metals in other income.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in the event that the transferee has the right by contract or custom to sell or repledge them, they are 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 the 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 consolidated statement of financial position. Securities borrowed are not recorded in the consolidated 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 consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies dealing, depending on the nature of the instrument.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the NBRB, amounts due to credit institutions, amounts due to customers, debt securities issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Government grants

Government grants in the form of a non-financial asset receivable from the government are recognised at the present value of discounted future cash flows in respect of compensation of interest income. The loss on initial recognition of loans issued at below market rate is recognised in the consolidated income statement net of gains on government grants.

Loans issued at below market rate and receivables in respect of government grants are subsequently measured at amortised cost using the effective interest rate method and are tested for impairment with subsequent recognition of gains (losses) in the consolidated income statement.

Write-off of loans

Loans are written off against the allowance for impairment in the event of uncollectibility, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank including sale of all available collateral. The decision to write off bad debt against the allowance for impairment is approved by the management of the Bank.

Leases

i. Finance – Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

iii. Operating – Bank as lessor

The Bank presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank establishes at each reporting date whether there is any objective evidence of impairment of a financial asset or a group of financial assets. An impairment loss is recognised when it is incurred as a result of one or more events (a “loss event”) that occurred after the initial recognition of the asset and that have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably. Loss events include:

- deterioration of the borrower’s financial position, including events when it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider (e.g. prolongation and rescheduling of payments);
- growth of overdue payments in a group of financial assets;
- unfavourable macroeconomic changes correlating with an occurrence of overdue payments or defaults in a group of financial assets, e.g. growth of energy prices, inflation in excess of planned indicators, decrease of real income of population, growth of unemployment rate.

The Bank assesses at each reporting date whether there are any indications that financial assets may be impaired and exercises professional judgement to adjust observable data relating to a group of financial assets to current circumstances. Methods and assumptions used to assess impairment of financial assets are regularly reviewed to minimise the possibility of differences between actual and estimated losses.

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' 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 recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised 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 recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan 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 collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit rating system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). 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 investment securities

For available-for-sale investment securities, 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 also 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 recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised 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 consolidated 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 recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

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. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised 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; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

The income tax expense is the sum of current and deferred tax.

The current income tax expense is estimated individually by each branch of the Bank and each of its subsidiaries based on the results recorded in their income statements prepared under the requirements of Belarusian legislation and after any adjustments for taxation purposes.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Taxation (continued)

carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Belarus also has various operating taxes that are assessed on the Bank's activities. These taxes are included in the consolidated income statement as taxes other than income tax.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met.

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

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50-100
Furniture and fixtures	5-10
Computers and office equipment	5
Motor vehicles	5-8

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised 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.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as share premium.

Treasury shares

Where the Bank or its subsidiaries purchases the Bank’s shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at nominal value.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Segment reporting

An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The Bank’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Interbank operations.

Note 30 “Segment information” of these consolidated financial statements contains information relating to income and expenses, assets and liabilities of the Bank’s operating segments. This information is provided to persons responsible for decision making process in the Bank. In addition, the Bank has presented a reconciliation of profit and loss before taxation of the reporting segments, as well as a reconciliation of the gross amount of segment assets to the total amount of the Bank’s assets presented in these consolidated financial statements.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as 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 recognised using the original effective interest rate applied to the new carrying amount.

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory 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 recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

Revenue from sales of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Revenue from rendering of services

Revenue from rendering of services is recognised by reference to the stage of completion when the outcome of the contract can be estimated reliably. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Foreign currency translation

The consolidated financial statements are presented in Belarusian roubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains/(losses) from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The closing exchange rates that were used in the preparation of these consolidated financial statements are presented in the table below:

	31 December 2010	31 December 2009
BYR/USD	3,000.00	2,863.00
BYR/EUR	3,972.60	4,106.11
BYR/RUR	98.44	94.66

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Future changes in accounting policies

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 an 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 consolidated financial statements.

IFRS 9 "Financial Instruments"
In November 2009, the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets and financial liabilities. In particular, for subsequent measurement, all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities at fair value through profit or loss a requirement was introduced to recognise changes in fair value caused by credit risks in other comprehensive income. The Bank is currently evaluating the impact of the adoption of the new Standard and is considering the initial application date.

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 derecognised. The Bank expects that these amendments will have no impact on the Bank's financial position.

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. The Bank is currently evaluating the impact of the adoption of these amendments.

IFRIC 14 "Prepayments of a minimum funding requirement" (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the consolidated financial statements of the Bank.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In the event that the fair value cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the consolidated financial statements of the Bank.

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. The amendments will have an impact on the accounting policies, financial position or performance of the Bank, as described below.

- IFRS 3 Business combinations: increases the elements of non-controlling interest that are measured at fair value in a business combination. 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 the other amendments to IFRS 3 will have no impact on the financial statements of the Bank.

(Millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

- IFRS 7 Financial instruments: Disclosures introduces amendments to quantitative and credit risk disclosures. Currently the Bank is evaluating the possible impact of the additional information requirements.
- Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank: IFRS 1 First-time adoption of IFRS, IAS 1 Presentation of Financial Statements, IAS 27 Consolidated and Separate Financial Statements and IFRIC 13 Customer Loyalty Programmes.

4. Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Allowance for loan impairment

The Bank reviews its individually significant loans and advances at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, management judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Deferred income tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	***2009***
Cash on hand	90,549	69,230
Current accounts with the National Bank of the Republic of Belarus	824,157	178,017
Current accounts with other credit institutions	112,221	286,256
Time deposits with credit institutions maturing within 90 days	282,068	129,492
Reverse repurchase agreements with credit institutions maturing within 90 days	-	10,005
Cash and cash equivalents	**1,308,995**	**673,000**

As of 31 December 2009, the Bank had entered into a reverse repurchase agreement with another credit institution. The agreement is collateralised by BYR-denominated long-term bonds issued by the Ministry of Finance of the Republic of Belarus (GDOs) which have the fair value of BYR 10,101 million.

(Millions of Belarusian roubles unless otherwise stated)

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2010	*2009*
Time deposits maturing after 90 days	44,517	19,087
Other amounts	9,389	5,751
Obligatory reserve with the National Bank of the Republic of Belarus	6,368	20,373
Amounts due from credit institutions	**60,274**	**45,211**

Belarusian credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Bank’s ability to withdraw such deposit is significantly restricted by statutory legislation.

As of 31 December 2010, time deposits comprised deposits placed with local banks of BYR 35,694 million and a deposit in the National Bank of the Republic of Belarus.

As of 31 December 2010 and 2009, balances with credit institutions included into other amounts in the table above represent guarantee deposits for plastic card settlements.

7. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the credit risk.

	2010			*2009*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards and swaps – foreign	47,671	-	380	20,531	47	-
Forwards and swaps – domestic	1,301,329	41,644	334	42,945	-	950
Total derivative assets/liabilities		**41,644**	**714**		**47**	**950**

Foreign and domestic in the table above stand for counterparties where foreign means non-Belarusian entities and domestic means Belarusian entities.

As of 31 December 2010, the Bank has positions in the following types of derivatives:

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

As a significant share of the Bank’s loan portfolio is denominated in Belarusian roubles, the Bank entered into forward transactions that will be settled in US dollars in 2016. As a result, the counterparty bears the currency risk.

(Millions of Belarusian roubles unless otherwise stated)

8. Loans to customers

Loans to customers comprise:

	2010	*2009*
Corporate lending	1,416,717	786,268
Small business lending	333,628	181,255
Consumer lending	43,319	57,473
Residential mortgages	27,903	27,135
Gross loans to customers	**1,821,567**	**1,052,131**
Less – Allowance for impairment	(63,640)	(50,430)
Loans to customers	**1,757,927**	**1,001,701**

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending	*Small business lending*	*Consumer lending*	*Residential mortgages*	*Total*
As of 1 January 2010	40,246	7,462	2,639	83	50,430
Charge/(reversal) for the year	12,870	12,897	(257)	56	25,566
Amounts written off	(7,581)	(3,415)	(1,644)	(20)	(12,660)
Effect of foreign exchange rate changes	219	81	4	-	304
As of 31 December 2010	**45,754**	**17,025**	**742**	**119**	**63,640**
Individual impairment	29,297	10,020	-	-	39,317
Collective impairment	16,457	7,005	742	119	24,323
	45,754	**17,025**	**742**	**119**	**63,640**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**269,507**	**68,553**	**-**	**-**	**338,060**

	Corporate lending	*Small business lending*	*Consumer lending*	*Residential mortgages*	*Total*
As of 1 January 2009	30,805	1,039	3,854	659	36,357
Charge/(reversal) for the year	14,523	6,057	(410)	(682)	19,488
Amounts written off	(11,544)	(348)	(917)	-	(12,809)
Effect of foreign exchange rate changes	6,462	714	112	106	7,394
As of 31 December 2009	**40,246**	**7,462**	**2,639**	**83**	**50,430**
Individual impairment	22,944	672	-	-	23,616
Collective impairment	17,302	6,790	2,639	83	26,814
	40,246	**7,462**	**2,639**	**83**	**50,430**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**172,360**	**3,292**	**-**	**-**	**175,652**

Individually impaired loans

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as of 31 December 2010 amounts to BYR 189,444 million (2009: BYR 84,518 million).

(Millions of Belarusian roubles unless otherwise stated)

8. Loans to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of the types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions – cash or securities,
- For corporate lending – charges over real estate properties, inventory and trade receivables,
- For consumer lending – mortgages over residential properties, pledges of vehicles and surety of third parties.

The Bank also obtains guarantees from parent companies for loans provided to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As of 31 December 2010, the Bank had a concentration of loans represented by BYR 753,960 million due from the ten largest third party borrowers (41% of the gross loan portfolio) (2009: BYR 389,506 million or 37%). An allowance of BYR 23,606 million (2009: BYR 17,055 million) was recognised against these loans.

Loans have been extended to the following types of customers:

	2010	*2009*
Companies under State control	1,007,838	170,235
Private companies	742,507	797,288
Individuals	71,222	84,608
	1,821,567	**1,052,131**

Loans are made principally within the Republic of Belarus in the following industry sectors:

	2010	*2009*
Manufacturing	1,043,516	509,127
Transportation	294,835	104,382
Trading enterprises	151,428	191,807
Finance	93,729	59,193
Real estate construction	78,650	60,011
Individuals	71,222	84,608
Agriculture and food processing	65,950	29,800
Other	22,237	13,203
	1,821,567	**1,052,131**

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables as of 31 December 2010 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	13,459	32,687	590	46,736
Unearned future finance income on finance leases	(2,569)	(7,823)	(552)	(10,944)
Net investment in finance leases	**10,890**	**24,864**	**38**	**35,792**

(Millions of Belarusian roubles unless otherwise stated)

8. Loans to customers (continued)

Finance lease receivables (continued)

The analysis of finance lease receivables as of 31 December 2009 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Gross investment in finance leases	18,480	52,628	-	71,108
Unearned future finance income on finance leases	(3,626)	(15,060)	-	(18,686)
Net investment in finance leases	**14,854**	**37,568**	**-**	**52,422**

9. Investment securities

Available-for-sale investment securities comprise:

	2010	*2009*
Corporate bonds	124,957	142,946
Municipal bonds	103,167	-
Corporate shares	148	148
Available-for-sale securities	**228,272**	**143,094**

Corporate bonds are represented by local banks' securities in national and foreign currencies.

10. Investment in associate

The investment in associate is represented by the interest held by the Bank in the following entity:

2010 and 2009

Associate	*Ownership / voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
LLC "Sivelga"	25,002	Belarus	30 April 1996	Manufacturing	3 October 2006

The movement in investment in associate was:

	2010	*2009*
1 January	2,497	2,247
Share of profit	1,566	326
Dividends received	(86)	(76)
Investment in associate, 31 December	**3,977**	**2,497**

The following table provides summarised financial information of the associate:

Aggregated assets and liabilities of associate	*2010*	*2009*
Assets	23,717	15,781
Liabilities	(6,592)	(5,797)
Net assets	**17,125**	**9,984**

Aggregated revenue and profit of associate	*2010*	*2009*
Revenue	56,806	42,376
Net profit	6,263	1,304

(Millions of Belarusian roubles unless otherwise stated)

11. Property and equipment and assets constructed for sale

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Assets constructed for sale*	*Total*
Cost							
31 December 2009	**75,651**	**60,280**	**19,825**	**7,345**	**1,968**	**17,203**	**182,272**
Additions	1,361	3,731	2,976	3,572	1,231	45,064	57,935
Transfers	632	234	4	-	(870)	-	-
Disposals	(1,064)	(2,737)	(315)	(3,341)	(1,272)	(3,307)	(12,036)
31 December 2010	**76,580**	**61,508**	**22,490**	**7,576**	**1,057**	**58,960**	**228,171**
Accumulated depreciation							
31 December 2009	**(7,545)**	**(31,636)**	**(6,900)**	**(5,028)**			**(51,109)**
Depreciation charge	(1,253)	(4,454)	(3,167)	(1,120)			(9,994)
Disposals	482	2,737	288	3,341			6,848
Impairment	-	(1,479)	-	-			(1,479)
31 December 2010	**(8,316)**	**(34,832)**	**(9,779)**	**(2,807)**			**(55,734)**
Net book value:							
31 December 2009	**68,106**	**28,644**	**12,925**	**2,317**	**1,968**	**17,203**	**131,163**
31 December 2010	**68,264**	**26,676**	**12,711**	**4,769**	**1,057**	**58,960**	**172,437**

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Assets constructed for sale*	*Total*
Cost							
31 December 2008	**74,467**	**60,274**	**13,815**	**7,864**	**2,065**	**2,095**	**160,580**
Additions	775	3,669	6,205	167	490	15,108	26,414
Transfers	421	166	-	-	(587)	-	-
Disposals	(12)	(3,829)	(195)	(686)	-	-	(4,722)
31 December 2009	**75,651**	**60,280**	**19,825**	**7,345**	**1,968**	**17,203**	**182,272**
Accumulated depreciation							
31 December 2008	**(6,510)**	**(31,151)**	**(5,153)**	**(5,287)**			**(48,101)**
Depreciation charge	(1,044)	(3,940)	(1,927)	(209)			(7,120)
Disposals	9	3,455	180	468			4,112
31 December 2009	**(7,545)**	**(31,636)**	**(6,900)**	**(5,028)**			**(51,109)**
Net book value:							
31 December 2008	**67,957**	**29,123**	**8,662**	**2,577**	**2,065**	**2,095**	**112,479**
31 December 2009	**68,106**	**28,644**	**12,925**	**2,317**	**1,968**	**17,203**	**131,163**

(Millions of Belarusian roubles unless otherwise stated)

12. Intangible assets

The movements in intangible assets were as follows:

	Licences	*Computer software*	*Total*
Cost			
31 December 2009	**138**	**3,442**	**3,580**
Additions	1,253	174	1,427
Disposals	(2)	-	(2)
31 December 2010	**1,389**	**3,616**	**5,005**
Accumulated amortisation			
31 December 2009	**(46)**	**(1,130)**	**(1,176)**
Amortisation charge	(54)	(220)	(274)
Disposals	2	-	2
31 December 2010	**(98)**	**(1,350)**	**(1,448)**
Net book value:			
31 December 2009	**92**	**2,312**	**2,404**
31 December 2010	**1,291**	**2,266**	**3,557**

	Licences	*Computer software*	*Total*
Cost			
31 December 2008	**92**	**1,933**	**2,025**
Additions	48	1,509	1,557
Disposals	(2)	-	(2)
31 December 2009	**138**	**3,442**	**3,580**
Accumulated amortisation			
31 December 2008	**(34)**	**(920)**	**(954)**
Amortisation charge	(14)	(210)	(224)
Disposals	2	-	2
31 December 2009	**(46)**	**(1,130)**	**(1,176)**
Net book value:			
31 December 2008	**58**	**1,013**	**1,071**
31 December 2009	**92**	**2,312**	**2,404**

13. Taxation

The corporate income tax expense comprises:

	2010	*2009*
Current tax charge	18,266	19,888
Deferred tax charge – origination and reversal of temporary differences	7,967	3,493
Income tax expense	**26,233**	**23,381**

Belarusian legal entities must file individual tax declarations. The tax rate for banks on profits other than on State securities was 26.28% for 2010 and 2009. With effect from 1 January 2011, a tax rate of 24% becomes effective.

(Millions of Belarusian roubles unless otherwise stated)

13. Taxation (continued)

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

	2010	*2009*
Profit before tax	**126,239**	**61,379**
Statutory tax rate	26.28%	26.28%
Theoretical income tax expense at the statutory rate	**33,176**	**16,130**
Capital expenditure tax exemption	(586)	(1,109)
Non-taxable income from State securities	(12,188)	(1,992)
Charitable donations	(37)	-
Non-taxable income	(138)	-
Losses of separate branches and subsidiaries	34	4,426
Non-deductible expenditures	9,145	6,024
Change in unrecognised deferred tax assets	1,652	453
Effect of change in tax rate	(1,153)	-
Effect of statutory revaluation of property and equipment	(3,682)	(551)
Income tax expense	**26,223**	**23,381**

Deferred tax assets and liabilities as of 31 December for the respective years comprise:

	2010	*2009*
Tax effect of deductible temporary differences:		
Property and equipment	13,158	7,676
Accruals	2,284	2,372
Allowance for loan impairment	-	5,358
Other deductable differences	-	598
Gross deferred tax asset	**15,442**	**16,004**
Unrecognised deferred tax asset	11,411	9,759
Deferred tax asset	**4,031**	**6,245**
Tax effect of taxable temporary differences:		
Loans to customers	(720)	-
Provisions	(789)	-
Deferred income	(2,435)	(7,151)
Derivative financial instruments	(10,946)	-
Other taxable differences	(1,277)	(3,263)
Deferred tax liability	**(16,167)**	**(10,414)**
Net recognised deferred tax assets	**5,870**	**3,183**
Net recognised deferred tax liabilities	**(18,006)**	**(7,352)**
Net position on deferred tax	**(12,136)**	**(4,169)**

	2010	*2009*
Net position on deferred tax		
At the beginning of the period	4,169	676
Deferred tax charge/(credit) – origination and reversal of temporary differences	7,967	3,493
At the end of the period	**12,136**	**4,169**

(Millions of Belarusian roubles unless otherwise stated)

14. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets	*Legal claims*	*Guarantees and commitments*	*Total*
31 December 2008	**1,992**	**-**	**375**	**2,367**
Charge (reversal)	403	-	(432)	(29)
Write-offs	(955)	-	-	(955)
Effect of changes in foreign currency exchange rates	-	-	57	57
31 December 2009	**1,440**	**-**	**-**	**1,440**
Charge	1,345	1,413		2,758
Write-offs	(39)	-		(39)
Effect of changes in foreign currency exchange rates	136	-		136
31 December 2010	**2,882**	**1,413**	**-**	**4,295**

The allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

The provision for legal claims was established as the result of legal action taken by one of the suppliers of the Bank’s subsidiaries with the objective of collecting penalties for overdue payables.

15. Other assets and liabilities

Other assets comprise:

	2010	*2009*
Trade and other receivables	23,010	9,679
Prepaid taxes other than income tax	8,504	7,051
Prepaid expenses	7,235	4,046
Prepayments	6,867	3,935
Government grants	4,108	4,105
Inventory held by subsidiaries	2,958	3,103
Re-insurer part of unearned insurance premium reserves	1,385	1,153
Other	3,271	2,751
	57,338	**35,823**
Less – Allowance for impairment of other assets (Note 14)	(2,882)	(1,440)
Other assets	**54,456**	**34,383**

Other liabilities comprise:

	2010	*2009*
Payables for non-banking activities	15,572	4,866
Amounts due to employees	6,843	7,014
Taxes other than income tax	5,607	3,043
Deferred income	4,511	3,949
Unearned insurance premium reserves	3,916	4,441
Other	2,109	2,548
Other liabilities	**38,558**	**25,861**

As of 31 December 2010, payables for non-banking activities included BYR 2,064 million (2009: BYR 2,134 million) of overdue payables to foreign suppliers.

(Millions of Belarusian roubles unless otherwise stated)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2010	*2009*
Time deposits and loans	1,278,845	164,982
Current accounts	36,189	33,272
Other accounts	5,800	6,264
Amounts due to credit institutions	**1,320,834**	**204,518**

As of 31 December 2010, time deposits and loans included loans from the parent bank of BYR 1,040,493 million (81.4% of time deposits and loans) obtained for the purpose of project financing in the Republic of Belarus.

As of 31 December 2010 and 2009, balances with credit institutions included into other accounts in the table above represent guarantee deposits for plastic card settlements.

17. Amounts due to customers

Amounts due to customers include the following:

	2010	*2009*
Time deposits	768,813	666,769
Current accounts	526,313	305,666
Amounts due to customers	**1,295,126**	**972,435**
Held as security against letters of credit	43,756	3,305
Held as security against guarantees	44,517	78,298

As of 31 December 2010, amounts due to customers of BYR 373,142 million (29% of amounts due to customers) were due to the ten largest customers (2009: BYR 271,829 million or 28%).

Included in time deposits are deposits of individuals of BYR 453,549 million (2009: BYR 405,583 million). In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within five days upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	2010	*2009*
Private enterprises	543,507	440,120
Individuals	475,420	427,391
State and budgetary organisations	248,686	86,277
Employees	27,513	18,647
Amounts due to customers	**1,295,126**	**972,435**

An analysis of customer accounts by economic sector follows:

	2010	*2009*
Individuals	502,933	446,038
Manufacturing	291,837	376,333
Trade	212,571	34,843
State administration bodies	119,400	48,557
Real estate constructions	39,536	13,794
Transport and communication	39,080	8,088
Other	89,769	44,782
Amounts due to customers	**1,295,126**	**972,435**

(Millions of Belarusian roubles unless otherwise stated)

18. Debt securities issued

Debt securities issued consisted of the following:

	2010	*2009*
Certificates of deposit	171	4,000
Bonds issued	-	3,135
Debt securities issued	**171**	**7,135**

Bonds issued comprise bonds sold to local legal entities at a discount that were fully repaid in 2010.

19. Subordinated debt

As of 31 December 2010 and 2009 subordinated debt comprised the following:

	Currency	*Nominal interest rate*	*Maturity*	*2010*	*2009*
VEB, Russia	USD	5.28%	3 October 2016	38,166	-
VEB, Russia	USD	5.28%	14 December 2016	90,129	86,006
Total subordinated loan				**128,295**	**86,006**

20. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares (All ordinary)	*Nominal amount (All ordinary)*	*Inflation adjustment*	*Total*
31 December 2008	**3,272,459,923**	**327,246**	**202,789**	**530,035**
Increase in share capital	2,775,340,000	277,534	-	277,534
31 December 2009 and 2010	**6,047,799,923**	**604,780**	**202,789**	**807,569**

The share capital of the Bank was contributed by the shareholders in Belarusian roubles and they are entitled to dividends and any capital distribution in Belarusian roubles.

On 15 December 2009, shareholders of the Bank approved an issue of 2,775,340,000 ordinary shares. The total consideration received for these shares was comprised of cash for the total amount of BYR 277,534 million. This share issue was registered by the National Bank of the Republic of Belarus on 16 December 2009.

At the Shareholders’ Meeting in March 2010, the Bank declared dividends in respect of the year ended 31 December 2009, amounting to BYR 9,693 million on the ordinary shares.

Additional paid-in capital was recorded as the result of recognition of subordinated debt and a loan from the parent company at fair value.

21. Commitments and contingencies

Operating environment

As an emerging market, Belarus does not possess the well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. The Belarusian economy continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Belarus. The future stability of the Belarusian economy is largely dependent upon reforms and developments, and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Belarusian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010, the Belarusian Government continued to take stabilisation measures aimed at providing liquidity to Belarusian banks and companies in order to overcome the consequences of the global financial crisis. Despite some indications of recovery, there continues to be uncertainty regarding further economic growth, access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank’s financial position, results of operations and business prospects.

(Millions of Belarusian roubles unless otherwise stated)

21. Commitments and contingencies (continued)

Operating environment (continued)

At the same time, the global economic recession has also had a negative impact on the Belarusian balance of payments resulting from a drop in exports especially to the Russian market. Other factors having an impact on the current account deficit are Government policies such as directed lending, subsidies and wage increases in addition to external factors such as the increase in Russian energy prices. All these factors could affect the Bank's financial position, results of operations and business prospects.

In addition, the borrowers of the Bank may have been affected by deterioration in their own liquidity, which has affected their ability to repay all amounts due to the Bank. Due to the fall in market values of real estate and other assets, the Bank also faces the consequences of a decrease in the fair value of assets pledged as collateral against loans extended by the Bank to both companies and individuals. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Belarusian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time. It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavourable outcome.

As of 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

As of 31 December the Bank's commitments and contingencies comprised the following:

	2010	*2009*
Credit related commitments		
Undrawn loan commitments	450,351	171,469
Letters of credit	124,263	37,860
Guarantees	129,213	172,479
	703,827	**381,808**
Operating lease commitments		
Not later than 1 year	2,546	1,659
Later than 1 year but not later than 5 years	3,015	3,787
Later than 5 years	34	17
	5,595	**5,463**
Less – Provisions	-	-
Commitments and contingencies (before deducting collateral)	**709,422**	**387,271**
Less – Cash held as security against letters of credit and guarantees	(88,273)	(81,603)
Commitments and contingencies	**621,149**	**305,668**

(Millions of Belarusian roubles unless otherwise stated)

22. Net fee and commission income

Net fee and commission income comprises:

	2010	*2009*
Settlement operations	51,955	41,149
Guarantees and letters of credit	7,972	6,163
Securities operations	169	160
Other	2,370	1,643
Fee and commission income	**62,466**	**49,115**
Settlement operations	(9,683)	(6,434)
Guarantees	(738)	(614)
Currency conversion operations	(311)	(196)
Securities operations	(126)	(47)
Other	(147)	(83)
Fee and commission expense	**(11,005)**	**(7,374)**
Net fee and commission income	**51,461**	**41,741**

23. Other income

	2010	*2009*
Revenue from generation and sale of electrical energy	16,520	7,835
Revenue from sales of goods	11,718	3,810
Revenue from provision of fitness services	8,902	7,981
Recovery of debts previously written off	8,469	3,481
Revenue from sales of agricultural produce	3,962	3,387
Insurance premiums received	3,492	2,935
Penalties received	1,206	1,406
Derecognition of overdue payables	-	849
Other	2,188	1,765
Total other income	**56,457**	**33,449**

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2010	*2009*
Salaries and bonuses	82,461	65,065
Social security costs	23,076	22,122
Personnel expenses	**105,537**	**87,187**
Cost of goods sold by trading subsidiaries	17,840	11,112
Office supplies, maintenance and rent	11,557	7,940
Data processing	7,193	6,406
Loss on disposal of property and equipment	5,754	374
Payments to guarantee fund	5,693	5,165
Professional services	4,427	1,962
Security	3,296	2,640
Transportation expenses	1,814	1,529
Impairment of property and equipment	1,479	-
Communications	1,263	1,121
Other	4,292	4,817
Other operating expenses	**64,608**	**43,066**

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25. Risk management

Introduction

Risk is inherent in the Bank’s activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank’s strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Management Committee

The Risk Management Committee controls liquidity of the Bank and works out the recommendations on liquidity management being the part of the asset and liabilities management. The Committee is also responsible for identification, assessment and management of interest rate risk as well as making decisions on interest rates on borrowings and resources placements.

Risk Management

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

Bank Treasury is responsible for managing the Bank’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the internal audit department, which examines both the adequacy of the procedures and the Bank’s compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

Risk measurement and reporting systems

The Bank’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Management Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit

(Millions of Belarusian roubles unless otherwise stated)

25. Risk management (continued)

exceptions, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter, which is designed to provide all the necessary information to assess and conclude on the risks of the Bank

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (additional information disclosed in Note 8).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Bank makes guarantees available to its customers, which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the respective letter of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and after deducting any allowance for impairment.

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25. Risk management (continued)

Credit Risk (continued)

	Notes	Maximum exposure 2010	Maximum exposure 2009
Cash and cash equivalents (excluding cash on hand)	5	1,218,446	603,770
Amounts due from credit institutions	6	60,274	45,211
Derivative financial assets	7	41,644	47
Loans to customers	8	1,757,927	1,001,701
Investment securities	9	228,124	142,946
Other assets	15	41,482	9,312
		3,347,897	**1,802,987**
Financial commitments and contingencies	21	703,827	381,808
Total credit risk exposure		**4,051,724**	**2,184,795**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, reference should be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Bank's credit rating system.

In the table below, high grade loans to other banks and customers comprise loans having the minimal credit risk and credit rating which is close to the sovereign rating and/or secured by readily realisable collateral. Other borrowers with good financial standing and good debt servicing are included in the standard grade. The substandard grade comprises loans with higher credit risk characteristics that those of standard grade loans. However, substandard grade loans are not individually impaired. For debt securities, high grade corresponds to Moody's rating of Baa3 and higher, standard grade comprises those securities that are rated lower than Baa3 but higher than B3, substandard grade – securities rated lower than B3.

31 December 2010		***Neither past due nor impaired***					
	Notes	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due but not impaired***	***Individually impaired***	***Total***
Amounts due from credit institutions	6	8,235	52,039	-	-	-	60,274
Loans to customers	8						
Corporate lending		65,803	1,081,253	-	155	269,506	1,416,717
Small business lending		14,882	241,593	8,254	345	68,554	333,628
Consumer lending		-	42,120	-	1,199	-	43,319
Residential mortgages		-	27,789	-	114	-	27,903
		80,685	1,392,755	8,254	1,813	338,060	1,821,567
Investment securities	9						
available-for-sale		-	228,124	-	-	-	228,124
Total		**88,920**	**1,672,918**	**8,254**	**1,813**	**338,060**	**2,109,965**

(Millions of Belarusian roubles unless otherwise stated)

25. Risk management (continued)

Credit Risk (continued)

31 December 2009		*Neither past due nor impaired*					
	Notes	***High grade***	***Standard grade***	***Sub-standard grade***	***Past due but not impaired***	***Individually impaired***	***Total***
Amounts due from credit institutions	6	4,963	40,248	-	-	-	45,211
Loans to customers	8						
Corporate lending		-	604,551	8,104	1,253	172,360	786,268
Small business lending		-	173,756	1,282	2,925	3,292	181,255
Consumer lending		-	54,405	-	3,068	-	57,473
Residential mortgages		-	27,018	-	117	-	27,135
		-	859,730	9,386	7,363	175,652	1,052,131
Investment securities available-for-sale	9	-	142,946	-	-	-	142,946
Total		**4,963**	**1,042,924**	**9,386**	**7,363**	**175,652**	**1,240,288**

An analysis of past due loans, by age, is provided below. The majority of past due loans are not considered to be individually impaired.

It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank’s rating policy. The attributable risk ratings are assessed and updated regularly.

Ageing analysis of past due but not individually impaired loans per class of financial assets:

31 December 2010	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Corporate lending	155	-	-	-	155
Small business lending	167	-	73	105	345
Consumer lending	311	220	150	518	1,199
Residential mortgages	19	19	-	76	114
Total	**652**	**239**	**223**	**699**	**1,813**

The fair value of collateral that the Bank held, as of 31 December 2010, in respect of gross past due but not individually impaired loans to customers was BYR 1,375 million (2009: BYR 2,027 million). See Note 8 for the details of types of collateral held as well as for more detailed information with respect to the allowance for impairment of loans to customers.

31 December 2009	***Less than 30 days***	***31 to 60 days***	***61 to 90 days***	***More than 90 days***	***Total***
Loans to customers:					
Corporate lending	133	238	784	98	1,253
Small business lending	319	1,423	3	1,180	2,925
Consumer lending	1,881	767	42	378	3,068
Residential mortgages	57	-	-	60	117
Total	**2,390**	**2,428**	**829**	**1,716**	**7,363**

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25. Risk management (continued)

Credit risk (continued)

Carrying amount by class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated loans, by class.

	2010	*2009*
Loans to customers:		
Corporate lending	5,505	5,517
Small business lending	28,041	781
Consumer lending	9	-
Residential mortgages	914	-
Total	**34,469**	**6,298**

Impairment assessment

The main considerations for loan impairment assessment include whether any payments of principal or interest are overdue by more than 60 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including loans to individuals) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated at each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank’s overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

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25. Risk management (continued)

Credit risk (continued)

The geographical concentration of Bank’s monetary assets and liabilities is set out below:

	2010				*2009*			
	Belarus	***OECD***	***CIS and other foreign countries***	***Total***	***Belarus***	***OECD***	***CIS and other foreign countries***	***Total***
Assets:								
Cash and cash equivalents	1,215,191	21,557	72,247	1,308,995	398,361	253,205	21,269	672,835
Amounts due from credit institutions	50,885	8,600	789	60,274	32,481	4,963	7,767	45,211
Derivative financial assets	41,644	-	-	41,644	-	-	47	47
Loans to customers	1,757,927	-	-	1,757,927	1,001,701	-	-	1,001,701
Investment securities available-for-sale	228,248	24	-	228,272	143,094	-	-	143,094
Other assets	41,482	-	-	41,482	13,417	-	-	13,417
	3,335,377	**30,181**	**73,036**	**3,438,594**	**1,589,054**	**258,168**	**29,083**	**1,876,305**
Liabilities:								
Amounts due to credit institutions	66,048	16,664	1,238,122	1,320,834	31,502	104,705	68,311	204,518
Amounts due to the NBRB	149	-	-	149	147	-	-	147
Derivative financial liabilities	334	-	380	714	950	-	-	950
Amounts due to customers	1,210,849	5,846	78,431	1,295,126	922,501	4,924	45,010	972,435
Debt securities issued	171	-	-	171	7,135	-	-	7,135
Subordinated loan	-	-	128,295	128,295	-	-	86,006	86,006
Other liabilities	23,045	-	-	23,045	15,603	-	-	15,603
	1,300,596	**22,510**	**1,445,228**	**2,768,334**	**977,838**	**109,629**	**199,327**	**1,286,794**
Net assets/(liabilities)	**2,034,781**	**7,671**	**(1,372,192)**	**670,260**	**611,216**	**148,539**	**(170,244)**	**589,511**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBRB. As of 31 December, these ratios were as follows:

	Minimal value, %	***2010***	***2009***
“Current Liquidity Ratio” (assets receivable or realisable within 30 days/ liabilities repayable within 30 days)	70	502	280
“Short-Term Liquidity Ratio” (assets receivable or realisable within one year/ liabilities repayable within one year)	100	990	510
“Quick Liquidity Ratio” (assets on demand/ liabilities on demand)	20	672	333

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank’s financial liabilities at 31 December based on contractual undiscounted repayment obligations except for trading derivatives which are shown at fair value in a separate column and gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request

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25. Risk management (continued)

Liquidity risk and funding management (continued)

repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As of 31 December 2010	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the NBRB	149	-	-	-	149
Amounts due to credit institutions	172,584	151,861	1,244,885	4,946	1,574,276
Gross settled derivative financial instruments					
- Contractual amounts payable	86,651	-	-	-	86,651
- Contractual amounts receivable	(87,397)	-	-	-	(87,397)
Amounts due to customers	619,789	511,100	228,306	14	1,359,209
Subordinated loan	-	6,949	7,820	146,573	161,342
Debt securities issued	172	-	-	-	172
Other liabilities	15,887	4,964	2,194	-	23,045
Total undiscounted financial liabilities	**807,835**	**674,874**	**1,483,205**	**151,533**	**3,117,447**

Financial liabilities As of 31 December 2009	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to the NBRB	147	-	-	-	147
Amounts due to credit institutions	72,548	19,657	95,562	38,107	225,874
Gross settled derivative financial instruments					
- Contractual amounts payable	44,645	-	-	-	44,645
- Contractual amounts receivable	(42,945)	-	-	-	(42,945)
Amounts due to customers	492,572	348,252	199,617	1,304	1,041,745
Subordinated debt	1,163	3,554	100,001	-	104,718
Debt securities issued	4,043	3,517	-	-	7,560
Other liabilities	12,514	-	-	-	12,514
Total undiscounted financial liabilities	**584,687**	**374,980**	**395,180**	**39,411**	**1,394,258**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2010	122,238	193,477	300,287	87,825	703,827
2009	28,401	40,849	311,842	716	381,808

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

The maturity analysis does not reflect the historical stability of current accounts and customer deposits. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in due to customers are term deposits of individuals. In accordance with Belarusian legislation, the Bank is obliged to repay such deposits in 5 days upon demand of a depositor. Refer to Note 17.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The exposures to market risk are managed and monitored using different sensitivity analysis techniques. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

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25. Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank’s income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets as of 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2010*	*Sensitivity of profit or loss 2010*	*Sensitivity of equity 2010*
BYR	300	116,468	1,125
USD	100	(7,303)	31
EUR	100	(32,209)	272

Currency	*Decrease in basis points 2010*	*Sensitivity of profit or loss 2010*	*Sensitivity of equity 2010*
BYR	300	(116,468)	(281)
USD	25	1,824	(31)
EUR	25	8,052	(68)

Currency	*Increase in basis points 2009*	*Sensitivity of profit or loss 2009*	*Sensitivity of equity 2009*
BYR	300	8,886	-
USD	236	(4,291)	1,726
EUR	100	(6)	698

Currency	*Decrease in basis points 2009*	*Sensitivity of profit or loss 2009*	*Sensitivity of equity 2009*
BYR	300	(8,886)	-
USD	236	4,291	(183)
EUR	100	6	(175)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRB regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December on its 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 rouble, with all other variables held constant, on the income statement. The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2010*	*Effect on profit before tax 2010*
USD	+3.5	28,072
EUR	+10	(4,693)
RUR	+8.95	(43)

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25. Risk management (continued)

Market risk (continued)

Currency	*Change in currency rate in %* *2010*	*Effect on profit before tax* *2010*
USD	-3.5	(28,072)
EUR	-10	4,693
RUR	-8.95	43

Currency	*Change in currency rate in %* *2009*	*Effect on profit before tax* *2009*
USD	+20.1	(2,645)
EUR	+21.8	(1,230)
RUR	+23.3	1,857

Currency	*Change in currency rate in %* *2009*	*Effect on profit before tax* *2009*
USD	-20.1	2,645
EUR	-21.8	1,230
RUR	-23.3	(1,857)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The management of the Bank believes that the Bank is not exposed to prepayment risk.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to work, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26. Fair values of financial instruments

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; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As of 31 December 2010	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Derivative financial instruments	-	41,644	-	41,644
Investment securities – available-for-sale	-	228,124	148	228,272
	-	**269,768**	**148**	**269,916**
Financial liabilities				
Derivative financial instruments	-	714	-	714
	-	**714**	**-**	**714**

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26. Fair values of financial instruments (continued)

As of 31 December 2009	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial instruments	-	47	-	47
Investment securities – available-for-sale	-	142,946	148	143,094
	-	**142,993**	**148**	**143,141**
Financial liabilities				
Derivative financial instruments	-	950	-	950
	-	**950**	**-**	**950**

Financial instruments recorded at fair value

The following is a description of how fair values are determined for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Fair value of financial assets and liabilities not carried at fair value

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

	Carrying value 2010	***Fair value 2010***	***Unrecognised gain/(loss) 2010***	***Carrying value 2009***	***Fair value 2009***	***Unrecognised gain/(loss) 2009***
Financial assets						
Cash and cash equivalents	1,308,995	1,308,995	-	673,000	673,000	-
Amounts due from credit institutions	60,274	60,274	-	45,211	45,211	-
Loans to customers	1,757,927	1,803,802	45,875	1,001,701	985,683	(16,018)
Financial liabilities						
Amounts due to the NBRB	149	149	-	147	147	-
Amounts due to credit institutions	1,320,834	1,320,834	-	204,518	204,518	-
Amounts due to customers	1,295,126	1,296,019	893	972,435	978,311	5,876
Debt securities issued	171	171	-	7,135	7,135	-
Subordinated debt	128,295	128,295	-	86,006	86,006	-
Total unrecognised change in unrealised fair value			**46,768**			**(10,142)**

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

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26. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

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 to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt securities issued, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	2010			***2009***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	1,308,995	-	1,308,995	673,000	-	673,000
Precious metals	4,218	-	4,218	3,368	-	3,368
Amounts due from credit institutions	53,818	6,456	60,274	31,231	13,980	45,211
Derivative financial assets	30	41,614	41,644	47	-	47
Loans to customers	1,090,280	667,647	1,757,927	624,979	376,722	1,001,701
Investment securities available-for-sale	124,956	103,316	228,272	114,270	28,824	143,094
Investments in associates	-	3,977	3,977	-	2,497	2,497
Property and equipment	9,778	162,659	172,437	8,303	122,860	131,163
Intangible assets	369	3,188	3,557	481	1,923	2,404
Current income tax asset	714	-	714	460	-	460
Deferred income tax assets	-	5,870	5,870	-	3,183	3,183
Other assets	28,593	25,863	54,456	29,097	5,286	34,383
Total	**2,621,751**	**1,020,590**	**3,642,341**	**1,485,236**	**555,275**	**2,040,511**
Amounts due to the NBRB	149	-	149	147	-	147
Amounts due to credit institutions	292,173	1,028,661	1,320,834	90,780	113,738	204,518
Derivative financial liabilities	714	-	714	950	-	950
Amounts due to customers	1,104,570	190,556	1,295,126	812,579	159,856	972,435
Debt securities issued	171	-	171	7,135	-	7,135
Current income tax liabilities	1,559	-	1,559	974	-	974
Deferred income tax liabilities	-	18,006	18,006	-	7,352	7,352
Provisions	-	1,413	1,413	-	-	-
Subordinated debt	822	127,473	128,295	116	85,890	86,006
Other liabilities	24,414	14,144	38,558	23,727	2,134	25,861
Total	**1,424,572**	**1,380,253**	**2,804,825**	**936,408**	**368,970**	**1,305,378**
Net	**1,197,179**	**(359,663)**	**837,516**	**548,828**	**186,305**	**735,133**

The maturity analysis does not reflect the historical stability of current accounts and customer deposits. The Bank constantly monitors the changes in its deposit base: monthly retention reports are compiled and analysed. The Bank’s experience shows that the liquidation of deposits has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due within one year in the table above.

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28. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with entities under common control of Russian Federation, except for the Vnesheconombank (Russian Federation) group of companies:

In the ordinary course of business, the Bank effects transactions with the entities that are ultimately controlled by the Russian Government. As of the reporting period end, the balances with such entities comprised balances on nostro and vostro accounts, loans from credit institutions and available-for-sale investment securities. There were no individually or collectively significant transactions with these entities during the reporting period or outstanding as of the reporting period end.

Transactions with other related parties including the Vnesheconombank group companies:

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

	2010			***2009***		
	Parent	***Entities under common control***	***Key management personnel***	***Parent***	***Entities under common control***	***Key management personnel***
Cash and cash equivalents	511	21,461	-	3,582	-	-
Loans outstanding as of 31 December gross	6,978	-	1,994	5,362	-	1,658
Loans issued during the year	-	-	192	-	-	592
Loan repayments during the year	(7,282)	-	(308)	-	-	(370)
Other movements	304	-	(276)	1,616	-	114
Loans outstanding as of 31 December, gross	-	-	1,602	6,978	-	1,994
Less: allowance for impairment as of 31 December	-	-	-	-	-	(60)
Loans outstanding as of 31 December, net	**-**	**-**	**1,602**	**6,978**	**-**	**1,934**
Interest income on loans	168	-	226	340	-	197
Amounts due to credit institutions as at 1 January	68,638	-		11,744	-	
Amounts due to credit institutions received during the year	1,012,306	12,064		57,212	-	
Amounts due to credit institutions repaid during the year	(44,154)	(12,074)		(6,477)	-	
Other movements	3,645	10		6,157	-	
Amounts due to credit institutions as of 31 December	**1,040,435**	**-**		**68,638**	**-**	
Subordinated debt	128,295	-		86,006	-	
Interest expense on amounts due to credit institutions	18,802	5		5,532	-	

(Millions of Belarusian roubles unless otherwise stated)

28. Related party disclosures (continued)

	2010			2009		
	Parent	Entities under common control	Key management personnel	Parent	Entities under common control	Key management personnel
Amounts due to customers as at 1 January			3,194			1,855
Amounts due to customers received during the year			3,560			3,584
Amounts due to customers repaid during the year			(1,991)			(2,499)
Other movements			(1,486)			254
Amounts due to customers as of 31 December			**3,277**			**3,194**
Interest expense on amounts due to customers			250			270
Derivative financial assets, net	-	-		47	-	
- Contractual amounts payable	-	-		20,483	-	
- Contractual amounts receivable	-	-		20,531	-	
Derivative financial liabilities, net	228	152		-	-	
- Contractual amounts payable	27,678	19,756		-	-	
- Contractual amounts receivable	27,450	19,605		-	-	
Commitments and guarantees issued	-	-	106	-	-	166
Fee and commission income/(expense)	(548)	-	-	-	404	2
Other operating expenses	-	-	-	-	428	-

Compensation of key management personnel was comprised of the following:

	2010	*2009*
Salaries and other short-term benefits	5,134	3,448
Social security costs	1,134	1,172
Total key management personnel compensation	**6,268**	**4,620**

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, ratios established by the Basel Capital Accord 1988 and ratios used by the NBRB in supervising the Bank.

During 2010, the Bank had complied in full with all of its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

(Millions of Belarusian roubles unless otherwise stated)

29. Capital adequacy (continued)

NBRB capital adequacy ratio

The National Bank sets and supervises the implementation of requirements of the minimum amount of regulatory capital, the required ratio of which is 8% of risk-weighted assets. During the years ended 31 December 2010 and 2009, the amount of the Bank’s regulatory capital was higher than the required minimum amount.

	2010	*2009*
Main capital	703,747	651,894
Additional capital	204,161	153,709
Less: deductions from capital	-	(7,559)
Total capital	**907,908**	**798,044**
Risk weighted assets	**3,082,104**	**1,782,720**
Capital adequacy ratio	32.8%	44.8%

Regulatory capital consists of Tier 1 capital (main capital), which comprises share, share premium, retained earnings, less accrued dividends, current year losses, unmade specific regulatory allowance for loans impairment, net long positions in own shares, net intangible assets and equity investments in associates and subsidiaries. The other components of regulatory capital are Tier 2 and Tier 3 capital (additional capital), which include current year profit, subordinated long-term debt, preference shares, revaluation reserves and subordinated short-term debt, correspondingly.

Capital adequacy ratio under the Basel Capital Accord 1988

The Bank’s capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2010 and 2009, comprised:

	2010	*2009*
Tier 1 capital	837,516	735,133
Tier 2 capital	128,295	86,006
Total capital	**965,811**	**821,139**
Risk weighted assets	**2,950,849**	**1,544,919**
Tier 1 capital ratio	28.4%	47.6%
Total capital ratio	32.7%	53.2%

30. Segment information

For management purposes the Bank is organised into three operating segments:

Retail banking – principally, handling individual customers’ deposits, and providing loans, currency transactions and operations with precious metals, cash and settlements operations, as well as the issue and maintenance of plastic cards to individuals.

Corporate banking – principally, handling deposits and issue of loans to legal entities and entrepreneurs, currency transactions, cash and settlements operations, documentary transactions.

Interbank operations – principally, handling accounts of other banks, lending and currency conversion operations with other banks

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance, as explained in the table below, is measured differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank’s total revenue in 2010 or 2009.

(Millions of Belarusian roubles unless otherwise stated)

30. Segment information (continued)

Segment reporting of the Bank's assets and liabilities as of 31 December 2010 is as follows:

	Corporate banking	Retail banking	Interbank operations	Other	Total
Segment assets	1,889,765	70,028	407,784	2,524,806	4,892,383
Segment liabilities	825,442	502,812	1,568,733	1,180,881	4,077,868

Segment reporting of the Bank's assets and liabilities as of 31 December 2009 is as follows:

	Corporate banking	Retail banking	Interbank operations	Other	Total
Segment assets	1,172,652	82,639	438,293	533,420	2,227,004
Segment liabilities	540,130	445,169	440,334	52,948	1,478,581

A reconciliation of assets and liabilities as per the reportable segments with the Bank's assets and liabilities under IFRS as of 31 December 2010 and as of 31 December 2009 is as follows:

	Total assets		Total liabilities	
	2010	2009	2010	2009
Total amount per reportable segment	**4,892,383**	**2,227,004**	**4,077,868**	**1,478,581**
Recognition of derivative financial instruments at fair value	41,594	-	(1,219)	(749)
Adjustment of impairment allowance	12,062	(15,986)	-	-
Adjustment of income tax	5,870	3,183	17,418	7,181
Recognition of loans previously written-off	5,599	1,763	-	-
Staff expenses accrued	-	-	8,856	9,026
Adjustment of amortised cost of borrowed funds and subordinated debt	-	-	(11,615)	-
Adjustment of amortised cost of loans granted under Governmental programmes	(669)	(27)	-	-
Adjustment of other impairment and provisions	(2,062)	(834)	(7,760)	(4,719)
Adjustment of depreciation and cost of property and equipment	(27,338)	(11,820)	-	-
Adjustments of transit accounts and cut-off entries	(31,287)	(17,297)	(33,002)	(45,010)
Adjustment for agency loans	(111,062)	(150,250)	(111,058)	(150,245)
Recognition of mutual deposits as derivative financial instruments	(1,151,910)	-	(1,154,706)	-
Consolidation effect	6,876	4,726	20,291	10,768
Other adjustments	2,285	49	(248)	545
The Bank's total amount under IFRS	**3,642,341**	**2,040,511**	**2,804,825**	**1,305,378**

2010	***Corporate banking***	***Retail banking***	***Interbank operations***	***Other***	***Total***
Revenue					
Third party					
Interest income	207,247	12,869	30,508	36,295	286,919
Net fee and commission income	46,352	14,218	(375)	195	60,390
Net gains from foreign currencies	13,506	8,440	3,225	1,628	26,799
Other income	6,352	817	-	15,924	23,093
Total revenue	**273,457**	**36,344**	**33,358**	**54,042**	**397,201**
Interest expense	(27,437)	(41,559)	(26,753)	(1,783)	(97,532)
Loan impairment	(50,357)	323	(8,898)	(1,492)	(60,424)
Segment results before non-interest expenses	**195,663**	**(4,892)**	**(2,293)**	**50,767**	**239,245**
Non-interest expenses					(161,928)
Income tax expense					(15,585)
Profit for the year					**61,732**

(Millions of Belarusian roubles unless otherwise stated)

30. Segment information (continued)

2009	*Corporate banking*	*Retail banking*	*Interbank operations*	*Other*	*Total*
Revenue					
Third party					
Interest income	149,067	15,754	23,441	2,938	191,200
Net fee and commission income	44,768	14,223	309	20	59,320
Net gains from foreign currencies	12,720	10,285	1,027	4,681	28,713
Other income	2,107	592	-	18,759	21,458
Total revenue	**208,662**	**40,854**	**24,777**	**26,398**	**300,691**
Interest expense	(27,067)	(47,014)	(18,417)	(790)	(93,288)
Loan impairment	(25,071)	(2,082)	(547)	(1,082)	(28,782)
Segment results before non-interest expenses	**156,524**	**(8,242)**	**5,813**	**24,526**	**178,621**
Non-interest expenses					(128,877)
Income tax expense					(17,394)
Profit for the year					**32,350**

A reconciliation of profit before tax, interest income and expense, net fee and commission income, net gains from foreign currencies for the reportable segments with the Bank's income statement items under IFRS for the year ended 31 December 2010 is as follows:

	Profit before tax	*Interest income*	*Interest expense*	*Net fee and commission income*	*Other income*	*Non-interest expenses*	*Net gains from foreign currencies*
Total amount per reportable segments	**77,317**	**286,919**	**(97,532)**	**60,390**	**23,093**	**(161,927)**	**26,799**
Recognition of derivative financial instruments at fair value	42,064	-	-	-	-	-	42,064
Adjustment of impairment allowance	29,501	-	-	-	-	-	-
Recognition of loans previously written-off	3,836	-	-	-	3,836	-	-
Adjustment of other impairment and provisions	2,995	-	-	-	-	2,995	-
Recognition of mutual deposits as derivative financial instruments	2,796	(321)	1,491	-	-	-	1,626
Reclassification of transport tax into income tax	1,554	-	-	-	-	1,554	-
Share of associate's profit	1,480	-	-	-	-	-	-
Staff expenses accrued	170	-	-	-	-	170	-
Adjustment for agency loans	1	(4,754)	4,755	-	-	-	-
Reclassification of commission income into interest income	-	1,466	-	(1,466)	-	-	-
Reclassification of fee for currency conversion operations into income from dealing operations	-	-	-	(7,142)	-	-	7,142
Separation of foreign currency translation differences and net gains on derivatives	-	(247)	-	-	(11,067)	10,729	(337)
Adjustment of amortised cost of borrowed funds and subordinated debt	(449)	-	(449)	-	-	-	-
Adjustment of amortised cost of loans granted under Governmental programmes	(642)	137	-	-	(779)	-	-
Adjustment of depreciation and cost of property and equipment	(1,554)	-	-	-	(2,247)	693	-
Recognition of income and expense on an accrual basis	(26,929)	(25,600)	-	(94)	(1,257)	26	(4)
Consolidation and other adjustments	(5,901)	(11,278)	1,479	(227)	44,878	(42,424)	(2,921)
The Bank's total amount under IFRS	**126,239**	**246,322**	**(90,256)**	**51,461**	**56,457**	**(188,184)**	**74,369**

(Millions of Belarusian roubles unless otherwise stated)

30. Segment information (continued)

A reconciliation of profit before tax, interest income and expense, net fee and commission income, net gains from foreign currencies for the reportable segments with the Bank's income statement items under IFRS for the year ended 31 December 2009 is as follows:

	Profit before tax	*Interest income*	*Interest expense*	*Net fee and commission income*	*Other income*	*Non-interest expenses*	*Net gains from foreign currencies*
Total amount per reportable segments	**49,744**	**191,200**	**(93,288)**	**59,320**	**21,458**	**(128,877)**	**28,713**
Recognition of income and expense on accrual basis	13,265	12,862	-	(264)	1,263	-	(596)
Adjustment of impairment allowance	4,884	-	-	-	-	594	-
Adjustment of other impairment and provisions	2,460	-	-	-	-	2,460	-
Recognition of loans previously written-off	1,763	-	-	-	1,763	-	-
Reclassification of transport tax into income tax	1,656	-	-	-	-	1,656	-
Recognition of derivative financial instruments at fair value	750	-	-	-	-	-	750
Reclassification of fee for currency conversion operations into income from dealing operations	-	-	-	(15,071)	-	-	15,071
Reclassification of commission income into interest income	-	1,972	-	(1,972)	-	-	-
Separation of foreign currency translation differences and net gains on derivatives	-	(1,343)	-	-	(17,004)	11,186	2,565
Adjustment of amortised cost of loans granted under the Governmental programmes	(946)	(7,550)	6,604	-	-	-	-
Adjustment of depreciation and cost of property and equipment	(1,389)	-	-	-	-	(1,389)	-
Staff expenses accrued	(5,986)	-	-	-	-	(5,986)	-
Consolidation and other adjustments	(4,822)	(4,679)	172	(272)	25,969	(22,610)	(4,154)
The Bank's total amount under IFRS	**61,379**	**192,462**	**(86,512)**	**41,741**	**33,449**	**(142,966)**	**42,349**

(Millions of Belarusian roubles unless otherwise stated)

31. Events after the reporting period

On 19 January 2011, the Bank made the decision to sell its share (51%) in its subsidiary Belinterfinance and completed the sale on 22 February 2011 for BYR 1,251 million which led to the disposal of the following subsidiaries of the Bank – Interekon-N and Orda.

At the Shareholders’ Meeting in March 2011, the Bank declared dividends in respect of the year ended 31 December 2010, amounting to BYR 30,866 million on the ordinary shares.