

OJSC “Belarusky Narodny Bank”
Consolidated Financial Statements

Year ended 31 December 2010

Together with Independent Auditors’ Report

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Independent auditors' report

To the Shareholders, Board of Directors and Management Board of Open Joint Stock Company "Belarusky Narodny Bank"

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

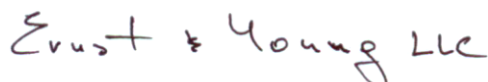
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



13 May 2011

Consolidated statement of comprehensive income**For the year ended 31 December 2010***(Millions of Belarusian roubles)*

	<i>Notes</i>	<i>2010</i>	<i>2009</i>
Interest income			
Loans to customers		11,659	9,578
Amounts due from credit institutions		5,248	2,183
Investment securities available for sale		651	-
		<u>17,558</u>	<u>11,761</u>
Interest expense			
Amounts due to customers		(1,095)	(2,986)
Amounts due to credit institutions		(1,021)	(517)
Other		-	-
		<u>(2,116)</u>	<u>(3,503)</u>
Net interest income		<u>15,442</u>	<u>8,258</u>
Allowance for loan impairment	8	(313)	(790)
Net interest income after allowance for loan impairment		<u>15,129</u>	<u>7,468</u>
Net fee and commission income	18	2,771	2,108
Net gains from foreign currencies:			
- dealing		2,251	2,005
- translation differences		387	998
Gain/(loss) on investment property revaluation		(6)	150
Net gain from derivative financial instruments		1,083	271
Other income	19	1,004	252
Non-interest income		<u>7,490</u>	<u>5,784</u>
Personnel expenses	20	(9,551)	(5,902)
Other operating expenses	20	(5,749)	(3,840)
Other impairment charge	12	(767)	(1,063)
Depreciation and amortization	9,10	(935)	(849)
Non-interest expense		<u>(17,002)</u>	<u>(11,654)</u>
Profit before income tax expense		<u>5,617</u>	<u>1,598</u>
Income tax expense	11	(1,412)	(547)
Profit for the year		<u>4,205</u>	<u>1,051</u>
Other comprehensive income (loss)			
Loss on revaluation of buildings, net of tax		(290)	-
Income tax benefit relating to components of other comprehensive income		71	-
Other comprehensive income for the year, net of tax		<u>(219)</u>	<u>-</u>
Total comprehensive income for the year		<u>3,986</u>	<u>1,051</u>

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2010***(Millions of Belarusian roubles)*

	<i>Share capital</i>	<i>Revaluation reserve</i>	<i>Accumulated losses</i>	<i>Total equity</i>
31 December 2008	43,726	16,684	(5,509)	54,901
Total comprehensive income for the year	-	-	1,051	1,051
Issue of share capital (Note 15)	43,925	-	-	43,925
31 December 2009	87,651	16,684	(4,458)	99,877
Total comprehensive income for the year	-	(219)	4,205	3,986
Change in ownership interest resulting from purchase of remaining shares in subsidiary	-	-	(76)	(76)
Depreciation of revaluation reserve	-	(202)	202	-
31 December 2010	87,651	16,263	(127)	103,787

The accompanying notes on pages 5 to 39 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)*

	<i>Notes</i>	2010	2009
Cash flows from operating activities			
Profit before income tax expense		5,617	1,598
Adjustments for:			
Depreciation and amortization		935	849
Loan impairment charge		313	790
Other impairment charge		767	1,063
Net change in interest accruals		(903)	(880)
(Gain) / loss from disposal of property and equipment and intangible assets		(445)	10
(Gain)/loss on revaluation of investment property		6	(150)
Gain on revaluation of derivative financial instruments		(810)	
Unused leave and bonus accrual		868	210
Effect from translation differences		(387)	(998)
Inventory write-off		108	48
Cash flow from operating activities before changes in operating assets and liabilities		6,069	2,540
<i>Net (increase) decrease in operating assets</i>			
Amounts due from credit institutions		(308)	1,100
Loans to customers		(87,634)	11,886
Other assets		(1,695)	(941)
<i>Net increase (decrease) in operating liabilities</i>			
Amounts due to credit institutions		57,660	(1,494)
Amounts due to customers		14,558	(14,887)
Other liabilities		141	(115)
Net cash used in operating activities before taxation		(11,209)	(1,911)
Income tax paid		(219)	(706)
Net cash used in operating activities		(11,428)	(2,617)
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(4,083)	(585)
Proceeds from sale of property, equipment and intangible assets		1,603	1
Purchase of additional shares in subsidiary		(76)	-
Net cash used in investing activities		(2,556)	(584)
Cash flows from financing activities			
Proceeds from issue of share capital		-	43,925
Net cash from financing activities		-	43,925
Effect of exchange rate changes on cash and cash equivalents		(9)	4,299
(Decrease) increase in cash and cash equivalents		(13,984)	40,724
Cash and cash equivalents at 1 January	5	66,873	21,850
Cash and cash equivalents at 31 December	5	52,880	66,873
Supplemental information:			
Interest paid		(2,030)	(3,486)
Interest received		16,569	10,866

The accompanying notes on pages 5 to 39 are an integral part of these consolidated financial statements.

(Millions of Belarusian roubles, unless otherwise indicated)

1. Principal activities

OJCS "Belarusky Narodny Bank" ("BNB") was formed on 16 April 1992 as an open joint stock company ("OJSC") under the laws of the Republic of Belarus. The Bank operates under banking licence #10 issued by the National Bank of the Republic of Belarus ("NBRB") issued on 27 August 2008, as well as other licences which allow it to perform other banking operations: customs payments guarantee and operations with securities.

The Bank operates in Minsk and has 4 operating outlets in Minsk and one in Vitebsk.

As at 31 December 2010, the consolidated financial statements include the financial statements of BNB and its 100% owned subsidiary - "BNB Leasing" LLC (together referred to as the "Bank"). "BNB Leasing" LLC was established by BNB as a limited liability company under the laws of the Republic of Belarus on 30 March 2006. In 2010, the Bank purchased remaining 30% of shares that it did not previously owned. "BNB Leasing" LLC's principal activity is providing finance lease services.

As at 31 December, the shareholders of BNB are as follows:

Shareholder	2010, %	2009, %
Benderlock Investments Limited LLC	43.5	63.4
OJSC "Bank of Georgia"	36.5	-
International Finance Corporation	20.0	-
Foreign entity "Valimed"	-	25.6
Foreign entity "Proscale M"	-	11.0
Total	100.0	100.0

OJSC "Bank of Georgia" (Georgia) is the ultimate controlling party of the Bank as of the year end.

2. Basis of preparation

General

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

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Belarusian roubles in accordance with Belarusian Accounting Standards ("BAS"). These consolidated financial statements are based on the Bank's BAS 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, buildings and investment property have been measured at fair value.

These consolidated financial statements are presented in millions of Belarusian roubles ("BYR million") unless otherwise indicated.

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.

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies

Changes in accounting policies

New and amended standards and applications

Amendments resulting from improvements to IFRS's to the following standards did not have any impact on the accounting policies, financial position or performance of the bank:

- IAS 24 "Related party disclosures" (Revised)
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions
- Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items
- IFRIC 17 "Distribution of Non-Cash Assets to Owners"
- IFRS 3 "Business Combinations" (revised in January 2008)

IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)

The revised standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. The revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor does it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standard are applied prospectively. This amendment was considered when preparing the Bank's consolidated financial statements.

Improvements to IFRSs

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

- ▶ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- ▶ IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- ▶ IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- ▶ IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Bank as the annual impairment test is performed before aggregation.

Basis of consolidation

Basis of consolidation from 1 January 2010

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, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

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 the non-controlling interests even if that results in a deficit balance.

If the Bank loses control over a subsidiary, it derecognises the assets (including goodwill) 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 consolidated statement of comprehensive income.

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- ▶ Losses incurred by the Bank were attributed to the non-controlling interests until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.
- ▶ Upon loss of control, the Bank accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Business combinations

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Business combinations (continued)

When the Bank acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Bank had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

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, and, 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.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that an asset is delivered to or by the Bank. 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 statement of comprehensive income. 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 statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

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 rate method. Gains and losses are recognised in the current year profit when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Determination of fair value

The 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 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amount 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.

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments 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 statement of comprehensive income as net gains/(losses) from fair value recognition of financial instruments.

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 credit institutions and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are charged to current year profit when the borrowings are derecognized as well as through the amortization process.

Leases

i. Finance - Bank as lessee

The Bank recognizes finance leases as assets and liabilities in the consolidated statement of financial position at the date of commencement of the lease term at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognized as an asset under the lease.

ii. Finance - Bank as lessor

The Bank recognizes 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.

iii. 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 recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

Impairment of financial assets

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

(Millions of Belarusian roubles, unless otherwise indicated)

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 an 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 as charge to the current year profit. 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 current year profit.

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 grading system that considers credit risk characteristics such as asset type, industry, 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.

Renegotiated loans

Where possible, the Bank seeks to restructure loans. 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.

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

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 current year profit.

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 current year profit. The premium received is recognised in the consolidated statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

Current income tax expense is calculated in accordance with the regulations of Belarus and is based on the results reported in the separate income statement of the Bank prepared under BAS on a non-consolidated basis after adjustments for tax 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 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.

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

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, which are assessed on the Bank's activities. These taxes are included in other operating expenses within current year profit and loss.

Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition.

Property and equipment

Property and equipment are initially recognised at cost (or cost restated using the inflation index for assets acquired prior to 31 December 2005), excluding the costs of day-to-day servicing and less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met.

Assets under construction are carried at cost if the recognition criteria are met.

Following initial recognition at cost, property and equipment are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in the consolidated statement of comprehensive income. A revaluation deficit is recognized in other comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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:

	<u>Years</u>
Buildings	9-100
Computers, furniture and other equipment	5-12
Motor vehicles	5-9

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

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

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.

Intangible assets

Intangible assets comprise computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their 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 four – six 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 finite useful lives are reviewed at least at each financial year-end.

Provisions

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

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. However the Bank has introduced other long-term employee benefits for key management personnel

Share capital

Share capital

Ordinary shares are classified as equity. Share capital is measured at restated cost.

Contingencies

Contingent liabilities are not recognized 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 recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized 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 recognized:

Interest and similar income and expense

For all financial instruments measured at amortized 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.

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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

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

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 statement of comprehensive income as net gains 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 net gains from dealing in foreign currencies. The official NBRB exchange rates at 31 December 2010 and 31 December 2009 were 3,000 BYR and 2,863 BYR to 1 US dollar, respectively.

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 relating to the classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank is currently evaluating the impact of the adoption of new Standard and is considering the initial application date.

(Millions of Belarusian roubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Bank's consolidated financial statements.

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.

Improvements to IFRSs

In May 2010, the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in the May 2010 "Improvements to IFRS" will have an impact on the accounting policies, financial position or performance of the Bank, as described below.

- ▶ IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquirer's identifiable net assets. As the amendment should be applied from the date the Bank applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Bank expects that other amendments to IFRS 3 will have no impact on the consolidated financial statements of the Bank.
- ▶ IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- ▶ Amendments to IFRS 1, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

4. Significant accounting judgments and estimates

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

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables. The Bank uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Fair value of investment properties

The Bank carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statement of comprehensive income. The Bank engaged an independent valuation specialist to determine fair value as of 31 December 2010. In respect of the investment property, the valuer used a valuation technique based on observable market data and a discounted cash flow model where market data was not available.

(Millions of Belarusian roubles, unless otherwise indicated)

4. Significant accounting judgments and estimates (continued)

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.

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 judgment 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

As at 31 December, cash and cash equivalents comprised:

	<u>2010</u>	<u>2009</u>
Cash on hand	8,569	3,282
Current accounts with the NBRB	3,898	36,593
Current accounts with other credit institutions	6,406	13,298
Time deposits with credit institutions up to 90 days	34,007	13,700
Cash and cash equivalents	<u>52,880</u>	<u>66,873</u>

As at 31 December 2010, BYR 2,879 million (2009 – BYR 10,628 million) was placed on current accounts and inter-bank deposits with four (2009 – four) internationally recognized OECD banks, which are the main counterparties of the Bank in performing international settlements.

Non-cash transactions performed by the Bank during 2009 consist of the repossession of collateral with a carrying value of BYR 650 million.

6. Amounts due from credit institutions

As at 31 December amounts due from credit institutions comprised:

	<u>2010</u>	<u>2009</u>
Obligatory reserve with the NBRB	203	909
Guarantee deposits	1,431	175
Amounts due from credit institutions	<u>1,634</u>	<u>1,084</u>

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 restricted by statutory legislation.

(Millions of Belarusian roubles, unless otherwise indicated)

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	63,803	-	1,012	-	-
Forwards and swaps – foreign	8,740	47	-	-	-
Forwards and swaps – domestic	98,820	1,775	-	-	-
Total derivative assets/liabilities		<u>1,822</u>	<u>1,012</u>	<u>-</u>	<u>-</u>

In the table above domestic contracts represent deals with Belarusian entities and foreign contracts represent deals with counterparties who are non-Belarusian entities.

As at 31 December 2009, the Bank did not enter into derivative financial instruments. As of 31 December 2010, the Bank has positions in 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.

Also as at 31 December 2010, the Bank has entered into two spot deals with JSC "Bank of Georgia" with a notional amount of USD 3,200,000 and EUR 2,400,000.

8. Loans to customers

As at 31 December, loans to customers comprised:

	2010	2009
Commercial lending	117,505	34,183
Consumer lending	8,208	3,455
Net investment in finance leases	5,574	5,060
Gross loans to customers	131,287	42,698
Less – Allowance for impairment	(2,810)	(2,735)
Loans to customers	128,477	39,963

(Millions of Belarusian roubles, unless otherwise indicated)

8. Loans to customers (continued)

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

	Commercial lending 2010	Consumer lending 2010	Net investment in finance leases 2010	Total 2010
At 1 January 2010	1490	237	1,008	2,735
Charge /(reversal) for the year	717	106	(510)	313
Amount written off	-	(138)	(100)	(238)
At 31 December 2010	2,207	205	398	2,810
Individual impairment	485	158	327	970
Collective impairment	1,722	47	71	1,840
	2,207	205	398	2,810
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	8,021	212	1,188	9,421
	Commercial lending 2009	Consumer lending 2009	Net investment in finance leases 2009	Total 2009
At 1 January 2009	786	143	1,095	2,024
Charge (reversal) for the year	704	173	(87)	790
Amounts written off	-	(79)	-	(79)
At 31 December 2009	1,490	237	1,008	2,735
Individual impairment	762	223	977	1,962
Collective impairment	728	14	31	773
	1,490	237	1,008	2,735
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	7,616	333	3,952	11,901

Individually impaired loans

Interest income accrued on loans for which individual impairment allowances have been recognized for the year ended 31 December 2010, comprised BYR 146 million (2009 – BYR 100 million).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010 amounts to BYR 6,657 million (2009 – BYR 2,635 million).

Loans may be written off through the use of the allowance account in cases when it was determined that the probability of repayment is remote upon the decision of the Credit Committee, which was approved by the Board of Directors.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For commercial lending - charges over real estate properties, inventory and trade receivables,
- ▶ For consumer lending – surety, charges over residential properties and vehicles,
- ▶ For finance lease - usually no additional to the leased equipment collateral is obtained.

(Millions of Belarusian roubles, unless otherwise indicated)

8. Loans to customers (continued)

Collateral and other credit enhancements (continued)

The Bank also obtains guarantees from parent companies for loans 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 at 31 December 2010, the Bank had a concentration of loans represented by BYR 54,899 million due from the ten largest third party borrowers (51% of gross loan portfolio) (2009– BYR 21,805 million or 62%). An individual impairment allowance of BYR 133 million was recognized against these loans as at 31 December 2010 (2009 - BYR 755 million).

Loans have been extended to the following types of customers:

	<u>2010</u>	<u>2009</u>
Legal entities	123,079	39,243
Individuals	8,208	3,455
	<u>131,287</u>	<u>42,698</u>

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

	<u>2010</u>	<u>2009</u>
Trading enterprises	67,638	20,554
Manufacturing	39,433	3,596
Real estate construction	8,899	9,508
Individuals	8,208	3,455
Transport	7,084	5,082
Other	25	503
	<u>131,287</u>	<u>42,698</u>

Finance lease receivables

The analysis of finance lease receivables is as follows:

	<u>2010</u>	<u>2009</u>
Gross investment in finance leases receivable:		
Not later than 1 year	3,794	3,354
Later than 1 year and not later than 5 years	2,846	2,907
	<u>6,640</u>	<u>6,261</u>
Unearned future finance income on finance leases	(1,066)	(1,201)
Net investment in finance leases	<u>5,574</u>	<u>5,060</u>
	<u>2010</u>	<u>2009</u>
Net investment in finance leases receivable:		
Not later than 1 year	3,138	2,639
Later than 1 year and not later than 5 years	2,436	2,421
Net investment in finance leases	<u>5,574</u>	<u>5,060</u>

(Millions of Belarusian roubles, unless otherwise indicated)

9. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Computers, furniture and other equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvement</i>	<i>Assets under construction</i>	<i>Total</i>
Revalued amount						
31 December 2009	24,087	2,100	209	-	396	26,792
Additions	541	1,345	193	420	91	2,590
Disposals	(1,223)	(36)	(44)	-	(179)	(1,482)
Transfers	-	(63)	111	-	(48)	-
Revaluation deficit	(1,288)	-	-	-	-	(1,288)
31 December 2010	22,117	3,346	469	420	260	26,612
Accumulated depreciation and impairment						
31 December 2009	990	498	58	-		1,546
Depreciation charge	369	310	83	37		799
Disposals	(303)	(14)	(23)	-		(340)
Effect of revaluation	(998)	-	-	-		(998)
31 December 2010	58	794	118	37		1,007
Net book value:						
31 December 2009	23,097	1,602	151	-	396	25,246
31 December 2010	22,059	2,552	351	383	260	25,605

	<i>Buildings</i>	<i>Computers, furniture and other equipment</i>	<i>Motor vehicles</i>	<i>Assets under construction</i>	<i>Total</i>
Revalued amount					
31 December 2008	24,087	1,555	209	568	26,419
Additions	-	367	-	13	380
Disposals	-	(7)	-	-	(7)
Transfers	-	185	-	(185)	-
31 December 2009	24,087	2,100	209	396	26,792
Accumulated depreciation and impairment					
31 December 2008	550	221	23		794
Depreciation charge	440	278	35		753
Disposals	-	(1)	-		(1)
31 December 2009	990	498	58		1,546
Net book value:					
31 December 2008	23,537	1,334	186	568	25,625
31 December 2009	23,097	1,602	151	396	25,246

(Millions of Belarusian roubles, unless otherwise indicated)

9. Property and equipment (continued)

The Bank uses the services of an independent appraiser to determine the fair value of its buildings, computers, furniture and other equipment and motor vehicles. Fair value is determined by reference to market-based evidence.

The last date of the revaluation of buildings was 31 October 2010. Computers, furniture and other equipment were revalued in June 2008 since which date Management considers there have been no significant changes in value. The depreciated revalued amount approximates the net book value that would apply under the cost model.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	<u>2010</u>	<u>2009</u>
Cost	9,527	8,482
Accumulated depreciation and impairment	<u>(965)</u>	<u>(1,126)</u>
Net carrying amount	<u>8,562</u>	<u>7,356</u>

The carrying value of equipment held under finance leases at 31 December 2010 was BYR 63 million (2009 – BYR 97 million). There were no additions during the year of equipment held under finance leases.

10. Intangible assets

The movements in intangible assets were as follows:

	<u>Computer software</u>
Cost	
31 December 2009	449
Additions	337
Disposals	<u>(154)</u>
31 December 2010	<u>632</u>
Accumulated amortization	
31 December 2009	190
Amortization charge	136
Disposals	<u>(138)</u>
31 December 2010	<u>188</u>
Net book value:	
31 December 2009	<u>259</u>
31 December 2010	<u>444</u>
	<u>Computer software</u>
Cost	
31 December 2008	320
Additions	205
Disposals	<u>(76)</u>
31 December 2009	<u>449</u>
Accumulated amortization	
31 December 2008	165
Amortization charge	96
Disposals	<u>(71)</u>
31 December 2009	<u>190</u>
Net book value:	
31 December 2008	<u>155</u>
31 December 2009	<u>259</u>

(Millions of Belarusian roubles, unless otherwise indicated)

11. Taxation

The corporate income tax expense comprises:

	<u>2010</u>	<u>2009</u>
Current tax expense	872	398
Deferred tax expense (benefit) – origination and reversal of temporary differences	469	149
Less: deferred tax recognized in other comprehensive income	71	-
Income tax expense	<u>1,412</u>	<u>547</u>

Belarusian legal entities must file individual tax declarations. The tax rate for banks and companies 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.

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:

	<u>2010</u>	<u>2009</u>
Profit before tax	5,617	1,598
Statutory tax rate	26.28%	26.28%
Theoretical income tax expense at the statutory rate	1,476	420
Non-deductible expenditures	97	127
Tax effect of other permanent differences	(89)	-
Effect of change in tax rate	(72)	-
Income tax expense	<u>1,412</u>	<u>547</u>

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			2010
	2008	<i>Charged to current year profit</i>	<i>In other comprehensive income</i>	2009	<i>Charged to current year profit</i>	<i>In other comprehensive income</i>	
Tax effect of deductible temporary differences:							
Allowance for loan impairment	388	142	-	530	(402)	-	128
Property and equipment	125	5	-	130	(196)	71	5
Other deductible expenses	74	101	-	175	511	-	686
Gross deferred tax assets	587	248	-	835	(87)	71	819
Deferred tax assets	<u>587</u>	<u>248</u>	-	<u>835</u>	<u>(87)</u>	<u>71</u>	<u>819</u>
Tax effect of taxable temporary differences:							
Loans to customers	59	102	-	161	193	-	354
Property and equipment	628	178	-	806	192	-	998
Other taxable income	48	117	-	165	68	-	233
Deferred tax liabilities	735	397	-	1,132	453	-	1,585
Net deferred tax liabilities	<u>148</u>	<u>149</u>	-	<u>297</u>	<u>540</u>	<u>(71)</u>	<u>766</u>

As at 31 December 2010, the Bank has recognised a deferred tax liability of BYR 1,086 million and its subsidiary "BNB-Leasing" LLC has recognised a deferred tax asset of BYR 320 million.

(Millions of Belarusian roubles, unless otherwise indicated)

12. Other impairment

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

	Other assets	Guarantees and commitments	Total
31 December 2008	-	2	2
Charge (reversal)	1,065	(2)	1,063
31 December 2009	1,065	-	1,065
Charge	767	-	767
Write-offs	(1,378)	-	(1,378)
31 December 2010	454	-	454

Allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for guarantees and commitments are recorded in other liabilities.

13. Other assets and liabilities

Other assets comprise:

	2010	2009
Prepayments for property and equipment	1,739	583
Other prepayments with contractors	1,500	585
Accounts receivable	470	85
Prepaid taxes other than income tax	364	33
Assets received as repossession of collateral	340	340
Office supplies	153	71
Receivables on legal claims	-	1,065
Other assets	4,566	2,762
Less – Allowance for impairment of other assets (Note 12)	(454)	(1,065)
Other assets	4,112	1,697

Other liabilities comprise:

	2010	2009
Bonus accruals	830	142
Amounts due to employees	447	267
Accounts payable	399	152
Liabilities under finance lease agreements	73	132
Operating taxes payable	81	84
Other	7	65
Other liabilities	1,837	842

Liabilities under finance lease agreements as at 31 December 2010 are analyzed as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Minimum lease payments	50	36	86
Future finance costs	(10)	(3)	(13)
Net liabilities under finance lease agreements	40	33	73

Liabilities under finance lease agreements as at 31 December 2009 are analyzed as follows:

	Not later than 1 year	Later than 1 year and not later than 5 years	Total
Minimum lease payments	62	98	160
Future finance costs	(16)	(12)	(28)
Net liabilities under finance lease agreements	46	86	132

(Millions of Belarusian roubles, unless otherwise indicated)

14. Amounts due to credit institutions

As at 31 December, amounts due to credit institutions comprise:

	<u>2010</u>	<u>2009</u>
Current accounts	198	135
Time deposits	57,648	-
Amounts due to credit institutions	<u>57,846</u>	<u>135</u>

As at 31 December 2010, time deposits due to credit institutions were due to OJCS "Bank of Georgia" and International Financial Corporation.

15. Amounts due to customers

As at 31 December, amounts due to customers comprise:

	<u>2010</u>	<u>2009</u>
Current accounts	26,754	15,540
Time deposits	23,071	19,189
Amounts due to customers	<u>49,825</u>	<u>34,729</u>

At 31 December 2010, amounts due to customers of BYR 25,901 million (52%) were due to the ten largest customers (2009 – BYR 16,444 million (47%)).

Included in time deposits are deposits of individuals of BYR 5,782 million (2009 – BYR 6,640 million). In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits upon demand of a depositor within 5 days. In case 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:

	<u>2010</u>	<u>2009</u>
Private enterprises	41,632	27,268
Individuals	8,193	7,461
Amounts due to customers	<u>49,825</u>	<u>34,729</u>

An analysis of customer accounts by economic sector follows:

	<u>2010</u>	<u>2009</u>
Trade	30,967	21,947
Individuals	8,193	7,461
Transport and communication	6,410	3,164
Real estate constructions	3,078	459
Other	1,177	1,698
Amounts due to customers	<u>49,825</u>	<u>34,729</u>

16. Equity

Share capital

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

	<u>Number of ordinary shares</u>	<u>Nominal amount</u>	<u>Inflation adjustment</u>	<u>Total</u>
31 December 2008	1,011,789,396	25,295	18,431	43,726
Increase in share capital	1,757,000,208	43,925	-	43,925
31 December 2009 and 2010	<u>2,768,789,604</u>	<u>69,220</u>	<u>18,431</u>	<u>87,651</u>

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.

(Millions of Belarusian roubles, unless otherwise indicated)

16. Equity (continued)

In December 2009, shareholders of the Bank approved an issue of 1,757,000,208 ordinary shares. The total consideration received for these shares was comprised of cash for the total amount of BYR 43,925 million. This share issue was registered by the NBRB on 31 December 2009.

Nature and purpose of other reserves

Revaluation reserve

Other reserves comprise the revaluation reserve for property and equipment which is used to record increases in the fair value of property and equipment and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in other comprehensive income.

17. 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 these 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.

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 face 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

(Millions of Belarusian roubles, unless otherwise indicated)

17. Commitments and contingencies (continued)

Taxation (continued)

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 at 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 at 31 December, the Bank's commitments and contingencies comprised the following:

	<u>2010</u>	<u>2009</u>
Credit related commitments		
Undrawn loan commitments	13,405	3,101
Guarantees issued	12,074	3,254
Letters of credit	541	-
	<u>26,020</u>	<u>6,355</u>
Operating lease commitments		
Not later than 1 year	742	160
Later than 1 year but not later than 5 years	2,024	656
Later than 5 years	1,245	85
	<u>4,011</u>	<u>901</u>
	<u>30,031</u>	<u>7,256</u>

18. Net fee and commission income

Net fee and commission income comprises:

	<u>2010</u>	<u>2009</u>
Settlement operations	2,582	1,768
Currency conversion operations	702	579
Guarantees	160	109
Other	62	57
Fee and commission income	<u>3,506</u>	<u>2,513</u>
Settlement operations	681	378
Currency conversion operations	23	21
Other	31	6
Fee and commission expense	<u>735</u>	<u>405</u>
Net fee and commission income	<u>2,771</u>	<u>2,108</u>

19. Other income

Other income comprises:

	<u>2010</u>	<u>2009</u>
Gain on disposal of property and equipment	445	-
Fines and penalties received	388	162
Income from operating leases	93	61
Other income	78	29
Total other income	<u>1,004</u>	<u>252</u>

(Millions of Belarusian roubles, unless otherwise indicated)

20. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<u>2010</u>	<u>2009</u>
Salaries and bonuses	6,799	4,083
Remuneration of Board of Directors	710	564
Social security costs	2,042	1,255
Personnel expenses	<u>9,551</u>	<u>5,902</u>
IT maintenance	942	819
Legal and consultancy	712	279
Marketing and advertising	699	303
Operating taxes	666	923
Office supplies	481	305
Repair and maintenance of property and equipment	418	196
Occupancy and rent	392	100
Security	272	92
Utilities	269	154
Communications	236	197
Information services	80	65
Business travel and related expenses	57	30
Insurance	56	16
Loss on disposal of property and equipment	-	10
Other	469	351
Other operating expenses	<u>5,749</u>	<u>3,840</u>

21. Risk management

Introduction

Risk is inherent in the Bank's activities but it 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 for the development of the risk management strategy and policies, implementing principles, frameworks, policies and limits. The Management Board is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Finance Committee

The Finance Committee is responsible for determining the policies for effective management of assets and liabilities, enabling the Bank to maximize profits while minimizing risks whilst at the same time following prudential ratios and statutory legislation requirements. The Finance Committee performs complex financial risk management, coordinates

(Millions of Belarusian roubles, unless otherwise indicated)

21. Risk management (continued)

Introduction (continued)

Finance Committee (continued)

the activities of the Bank's divisions in the field of risk management in order to reach the optimal balance of risks and profitability.

Credit Committee

The Committee is responsible for complex credit risk management, coordinates the activities of the Bank's divisions in the field of credit risk management in order to reach the optimal balance of credit risks and yields.

Treasury

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 Internal Audit who examines both the adequacy of and compliance with the Bank's 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 various risk measurement tools: scenario methods which allow assessing the level of risk in various case scenarios, client risk assessments, stress-testing and other.

Monitoring and controlling risks are 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. In addition the Bank monitors and measures the overall risk bearing capacity while performing calculations of capital adequacy and other prudential regulations.

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 and the Finance and Credit Committees. The reports include aggregate credit exposure, liquidity ratios, levels of operational and currency risk, and risk profile changes. The appropriateness of the allowance for credit losses is assessed on a monthly basis. Once a month the Board of Directors receives a report on credit portfolio and financial position of the Bank that provides the information to assess and conclude on the risk profile of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses the system of measures and limits stipulated by local statutory requirements to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see above for more detail).

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.

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21. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank would incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Credit risk control in relation to borrowers (other than banks acting as counterparties to the Bank) includes the following:

- ▶ monitoring of issued credit instruments by the corresponding structural units of the Bank;
- ▶ classification of assets and contingent liabilities, and creation of special allowances for covering possible losses in relation to assets and contingent liabilities;
- ▶ for the purpose of controlling the overall compliance with the credit portfolio parameters set in the Credit Policy and other documents of the Bank regulating credit activities, the analysis of the portfolio is prepared by the Risk Department and submitted, usually on a monthly basis, to the Finance Committee.

Control of the accepted credit risk level in relation to amounts placed within banks acting as counteragents to the Bank includes the following:

- ▶ analysis of negative financial and non-financial information while applying previously set limits (performed by the Financial Risk and Pricing Department);
- ▶ routine and subsequent control over compliance with the set limits (sub-limits) for banks acting as counterparties to the Bank by executive units – units directly operating within the set limits (sub-limits).

The results of analysis serve as a basis for developing suggestions to units working with customers with regard to recommended parameters for clients attracted for credit services. Additional parameters limiting portfolio concentration of the Bank can be developed based on the analysis of the portfolio.

All activities performed by credit units of the Bank in the course of monitoring of current loans are aimed at identifying problems at the earliest stage possible.

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. Credit risk classification system provides assigning a risk rating to each counterparty. Risk ratings are subject to regular revision.

The credit quality control system allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take necessary action.

The Bank receives collateral and guarantees from entities and individuals in relation to most loans, however, a certain part of lending is attributable to loans to individuals in regard to which obtaining collateral or guarantee is impracticable. Such risks are monitored on a regular basis.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee. They expose the Bank to similar risks 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 statement of financial position. 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.

	<i>Notes</i>	<i>Maximum exposure 2010</i>	<i>Maximum exposure 2009</i>
Cash and cash equivalents (excluding cash on hand)	5	44,311	63,591
Amounts due from credit institutions	6	1,634	1,084
Loans to customers	8	128,477	39,963
Other assets		356	85
		<u>174,778</u>	<u>104,723</u>
Financial commitments and contingencies	17	26,020	6,355
Total credit risk exposure		<u>200,798</u>	<u>111,078</u>

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21. Risk management (continued)

Credit risk (continued)

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.

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 of the statement of financial position, based on the Bank's credit rating system.

High grade includes the Bank's highest quality financial assets. The possibility of deterioration is generally considered remote. Financial performance has been strong and good. All factors are favourable and participation potential or ability to refinance is considered good. Financial history shows good liquidity and cash flow with good basic trends, or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished

Standard grade includes good quality financial assets. The possibility of deterioration is generally considered remote but there is some amount of uncertainty. These assets are neither overdue nor any other significant signs of impairment are identified. Financial performance has been strong and good but it can deteriorate as a result of some possible factors in the future. Financial history shows good liquidity and cash flow with good basic trends, or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished.

Substandard grade includes normal quality financial assets. The possibility of deterioration exists and there is identifiable amount of uncertainty. These assets are not overdue yet but some insignificant signs of impairment are identified. Financial performance has been strong and good but there is a likelihood that it can deteriorate as a result of some probable factors in the future. Financial history generally shows good liquidity and cash flow with good basic trends, however some overdue amounts could happen in the past or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished.

	Notes	Neither past due nor impaired			Past due or individually impaired 2010	Total 2010
		High grade 2010	Standard grade 2010	Sub-standard grade 2010		
Amounts due from credit institutions	6	1,634	-	-	-	1,634
Loans to customers	8					
Commercial lending		39,315	64,401	1,601	12,188	117,505
Consumer lending		7,642	124	186	256	8,208
Net investment in lease		528	3,445	-	1,601	5,574
		<u>47,485</u>	<u>67,970</u>	<u>1,787</u>	<u>14,045</u>	<u>131,287</u>
Total		<u>49,119</u>	<u>67,970</u>	<u>1,787</u>	<u>14,045</u>	<u>132,921</u>

	Notes	Neither past due nor impaired			Past due or individually impaired 2009	Total 2009
		High grade 2009	Standard grade 2009	Sub-standard grade 2009		
Amounts due from credit institutions	6	1,084	-	-	-	1,084
Loans to customers	8					
Commercial lending		10,814	12,144	667	10,558	34,183
Consumer lending		2,697	305	120	333	3,455
Net investment in lease		822	286	-	3,952	5,060
		<u>14,332</u>	<u>12,735</u>	<u>787</u>	<u>14,843</u>	<u>42,698</u>
Total		<u>15,416</u>	<u>12,735</u>	<u>787</u>	<u>14,843</u>	<u>43,782</u>

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21. Risk management (continued)

Credit risk (continued)

As at 31 December 2010, the Bank had BYR 4,624 million of past due loans which were considered to be unimpaired (2009 – BYR 2,942 million). Of the total aggregate amount of gross past due but unimpaired loans to customers, the fair value of collateral that the Bank held as at 31 December 2010 was BYR 4,698 million (2009 - BYR 4,807 million). The ageing analysis of past due but not impaired loans per class of financial assets is provided below:

	Less than 30 days 2010	31 to 60 days 2010	61 to 90 days 2010	More than 90 days 2010	Total 2010
Loans to customers					
Corporate lending	6	-	3,294	867	4,167
Consumer lending	23	-	-	21	44
Net investment in lease	413	-	-	-	413
	<u>442</u>	<u>-</u>	<u>3,294</u>	<u>888</u>	<u>4,624</u>
Total	<u>442</u>	<u>-</u>	<u>3,294</u>	<u>888</u>	<u>4,624</u>
	Less than 30 days 2009	31 to 60 days 2009	61 to 90 days 2009	More than 90 days 2009	Total 2009
Loans to customers					
Corporate lending	-	-	34	2,908	2,942
Consumer lending	-	-	-	-	-
Net investment in lease	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>34</u>	<u>2,908</u>	<u>2,942</u>
Total	<u>-</u>	<u>-</u>	<u>34</u>	<u>2,908</u>	<u>2,942</u>

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.

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

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

The Bank had no renegotiated financial assets which would be otherwise impaired as at 31 December 2010 and 2009.

Impairment assessment

The main considerations for loan impairment assessment include whether any payments of principal or interest are overdue by more than 5 days for legal entities and 30 days for individuals 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 realizable 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.

(Millions of Belarusian roubles, unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards and consumer lending) 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 are assessed and provision made in a similar manner as for loans.

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

	2010				2009			
	Belarus	OECD	CIS and other foreign banks	Total	Belarus	OECD	CIS and other foreign banks	Total
Assets:								
Cash and cash equivalents	46,952	2,879	3,049	52,880	54,872	10,628	1,373	66,873
Amounts due from credit institutions	584	1,050	-	1,634	1,084	-	-	1,084
Derivative financial assets	1,775	-	47	1,822	-	-	-	-
Loans to customers	128,477	-	-	128,477	39,963	-	-	39,963
Other assets	356	-	-	356	85	-	-	85
	178,144	3,929	3,096	185,169	96,004	10,628	1,373	108,005
Liabilities:								
Amounts due to credit institutions	-	14,847	42,999	57,846	-	-	135	135
Derivative financial liabilities	-	-	1,012	1,012	-	-	-	-
Amounts due to customers	49,704	7	114	49,825	23,911	12	10,806	34,729
Other liabilities	1,749	-	-	1,749	737	-	-	737
	51,453	14,854	44,125	110,432	24,648	12	10,941	35,601
Net position	126,691	(10,925)	(41,029)	74,737	71,356	10,616	(9,568)	72,404
Net commitments and contingencies	26,020	-	-	26,020	6,355	-	-	6,355

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 an informal commitment from the parent company on 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.

(Millions of Belarusian roubles, unless otherwise indicated)

21. Risk management (continued)

Liquidity risk and funding management (continued)

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 at 31 December, these ratios were as follows:

	<i>Normative, %</i>	<i>2010, %</i>	<i>2009, %</i>
"Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	20	264	335
"Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	70	190	298
"Short-Term Liquidity Ratio" (assets receivable within a year / liabilities repayable within a year)	100	320	1,590

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. 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 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 at 31 December 2010	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Amounts due to credit institutions	43,012	702	16,259	-	59,973
Derivative financial instruments					
- Contractual amounts payable	-	-	-	60,510	60,510
- Contractual amounts receivable	-	-	-	(63,803)	(63,803)
Amounts due to customers	33,298	17,039	2,935	-	53,272
Other liabilities	1,639	37	123	-	1,799
Total undiscounted financial liabilities	77,949	17,778	19,317	(3,293)	111,751
Financial liabilities As at 31 December 2009	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Amounts due to credit institutions	135	-	-	-	135
Amounts due to customers	17,609	13,781	5,355	-	36,745
Other liabilities	468	183	86	-	737
Total undiscounted financial liabilities	18,212	13,964	5,441	-	37,617

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
2010	15,409	6,431	4,180	26,020
2009	3,429	120	2,806	6,355

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. 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 the Belarusian legislation, the Bank is obliged to repay such deposits upon demand of a depositor.

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.

(Millions of Belarusian roubles, unless otherwise indicated)

21. Risk management (continued)

Market risk – Non-trading

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. As at 31 December 2009 the Bank had no instruments exposed to such risk. As 31 December 2010 the Bank is exposed to such risk:

<i>Currency</i>	<i>Increase in basis points 2010</i>	<i>Sensitivity of net interest income 2010</i>	<i>Decrease in basis points 2010</i>	<i>Sensitivity of net interest income 2010</i>
BYR	300	3,068	(300)	(3,601)
USD	100	(1,128)	(25)	292

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 by Financial Risks and Pricing department.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the BYR, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income and equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in currency rate in % 2010</i>	<i>Effect on profit before tax 2010</i>	<i>Change in currency rate in % 2009</i>	<i>Effect on profit before tax 2009</i>
USD/BYR	3.5%	(602)	20.1%	690
EUR/BYR	10.0%	(52)	23.3%	1,102
RUR/BYR	8.95%	137	21.8%	-
USD/BYR	-3.5%	602	-20.1%	(690)
EUR/BYR	-10.0%	52	-23.3%	(1,102)
RUR/BYR	-8.95%	(137)	-21.8%	-

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. As at 31 December 2010 and 2009, the Bank had no instruments exposed to such risk.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, 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 is effective tools to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit. The Bank has insured major part of Property, plant and equipment to mitigate risks.

(Millions of Belarusian roubles, unless otherwise indicated)

22. 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:

At 31 December 2010	Level 2	Total
Financial assets		
Derivative financial instruments	1,822	1,822
Financial liabilities		
Derivative financial instruments	(1,012)	(1,012)
	810	810

Financial instruments recorded at fair value

The following is a description of the determination of fair value 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.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts. These derivatives are valued using the binomial models. The models incorporate various non-observable assumptions, which include market rate volatilities.

(Millions of Belarusian roubles, unless otherwise indicated)

22. Fair values of financial instruments (continued)

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

	Carrying value 2010	Fair value 2010	Unrecognized gain/(loss) 2010	Carrying value 2009	Fair value 2009	Unrecognized gain/(loss) 2009
Financial assets						
Cash and cash equivalents	52,880	52,880	-	66,873	66,873	-
Amounts due from credit institutions	1,634	1,634	-	1,084	1,084	-
Loans to customers	128,477	128,254	(223)	39,963	40,039	76
Financial liabilities						
Amounts due to credit institutions	57,846	57,846	-	135	135	-
Amounts due to customers	49,825	49,663	162	34,729	35,318	(589)
Total unrecognised change in unrealised fair value			(61)			(513)

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.

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, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

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

(Millions of Belarusian roubles, unless otherwise indicated)

23. 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 21 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2010			2009		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	52,880	-	52,880	66,873	-	66,873
Amounts due from credit institutions	1,634	-	1,634	1,084	-	1,084
Derivative financial assets	47	1,775	1,822	-	-	-
Loans to customers	94,075	34,402	128,477	28,280	11,683	39,963
Investment property	444	-	444	-	450	450
Property and equipment	-	25,605	25,605	-	25,246	25,246
Intangible assets	-	444	444	-	259	259
Current income tax assets	-	-	-	308	-	308
Deferred income tax assets	-	320	320	-	-	-
Other assets	4,112	-	4,112	880	817	1,697
Total	153,192	62,546	215,738	97,425	38,455	135,880
Amounts due to credit institutions	42,999	14,847	57,846	135	-	135
Derivative financial liabilities	-	1,012	1,012	-	-	-
Amounts due to customers	47,056	2,769	49,825	29,884	4,845	34,729
Current income tax liabilities	345	-	345	-	-	-
Deferred income tax liabilities	-	1,086	1,086	-	297	297
Other liabilities	1,754	83	1,837	758	84	842
Total	92,154	19,797	111,951	30,777	5,226	36,003
Net	61,038	42,749	103,787	66,648	33,229	99,877

24. 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.

(Millions of Belarusian roubles, unless otherwise indicated)

24. Related party disclosures (continued)

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	
	Shareholders	Entities under common control	Key management personnel	Entities under common control	Key management personnel
Cash and cash equivalents as at 31 December	6	-	-	-	-
Loans outstanding at 1 January, gross	-	-	41	-	19
Loans issued during the year	12,372	23,115	423	22,915	96
Loan repayments during the year	(12,387)	(23,251)	(221)	(23,077)	(74)
Other movements	15	136	-	162	-
Loans outstanding at 31 December, gross	-	-	243	-	41
Loans outstanding at 31 December, net	-	-	242	-	41
Interest income on loans	1	22	7	59	7
Deposits at 1 January	-	118	52	16,500	115
Deposits received during the year	1,846,980	155	-	9,509	-
Deposits repaid during the year	(1,789,276)	(148)	(48)	(15,155)	(63)
Decrease in deposit placed by the party which ceased to be defined as related	-	-	-	(10,736)	-
Other movements	57	-	-	-	-
Deposits at 31 December	57,761	125	4	118	52
Interest expense on deposits	937	10	1	1,810	4
Undrawn loan commitments	-	-	35	-	-

Compensation of key management personnel was comprised of the following:

	2010	2009
Salaries and other short-term benefits	995	791
Remuneration of the Board of Directors	710	564
Social security costs	176	253
Total key management compensation	1,881	1,608

25. 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, the ratios established by the ratios established by the NBRB in supervising the Bank and the Basel Capital Accord 1988.

As at 31 December 2010, the Bank had complied in full with all 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 maximize 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 indicated)

25. Capital adequacy (continued)

NBRB capital adequacy ratio

The NBRB requires banks to maintain a minimum capital adequacy ratio of 8% of risk-weighted assets, computed based on stand-alone BAS basis. As at 31 December 2010 and 2009, the Bank's capital adequacy ratio on this basis was as follows:

	<u>2010</u>	<u>2009</u>
Main capital	82,958	82,478
Additional capital	28,470	22,224
Total capital	<u>111,428</u>	<u>104,702</u>
Risk-weighted assets	187,715	108,168
Risk-weighted off-balance commitments and contingencies	12,770	2,249
	<u>200,485</u>	<u>110,417</u>
Capital adequacy ratio	56%	95%

Capital adequacy ratio under Basel Capital Accord 1988

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

	<u>2010</u>	<u>2009</u>
Tier 1 capital	87,080	82,934
Tier 2 capital	16,263	16,684
Total capital	<u>103,343</u>	<u>99,618</u>
Risk-weighted assets	<u>162,626</u>	<u>76,268</u>
Tier 1 capital ratio	54%	109%
Total capital ratio	64%	130%

26. Subsequent events

During the period January-February 2011 the Bank has opened two new operating outlets in Minsk, the Republic of Belarus.