BELGAZPROMBANK

Financial Statements
For the Year Ended 31 December 2010

BELGAZPROMBANK

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of Belarusian-Russian Belgazprombank Joint Stock ("Belgazprombank" or the "Bank") as at 31 December 2010, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting rules of the Republic of Belarus;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing financial and other irregularities.

The financial statements for the year ended 31 December 2010 were authorized for issue on 18 March 2011 by the Chairman of the Management Board of Belgazprombank.

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
18 March 2011
Minsk

Chief Accountant
T. Pivovar
18 March 2011
Minsk

Foreign Enterprise
Deloitte & Touche
51 Korolya Street
Minsk, 220004
Belarus

Tel.: +375 (0)17 200 03 53
Fax: +375 (0)17 200 0414
www.deloitte.by

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Shareholders of Belarusian-Russian Belgazprombank Joint Stock:

We have audited the accompanying financial statements of Belarusian-Russian Belgazprombank Joint Stock ("Belgazprombank" or the "Bank"), which comprise the balance sheet as at 31 December 2010, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as well as for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Belgazprombank as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

18 March 2011
Minsk

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010
(in millions of Belarusian Rubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	5, 30	272,951	242,500
Interest expense	5, 30	(123,993)	(134,985)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		148,958	107,515
Provision for impairment losses on interest bearing assets	6, 30	(24,051)	(31,227)
Recoveries of assets previously written off		8,239	620
NET INTEREST INCOME		133,146	76,908
Net gain on foreign exchange operations	7	22,115	23,047
Net gain on operations with financial instruments at fair value through profit or loss	8	29,717	24,661
Fee and commission income	9, 30	63,280	52,312
Fee and commission expense	9	(11,899)	(7,741)
Net gain/(loss) on operations with investments available for sale		136	(159)
Other provisions	6	(3,814)	(660)
Other income	10	5,542	4,427
NET NON-INTEREST INCOME		104,805	95,887
OPERATING INCOME		237,951	172,795
OPERATING EXPENSES	11, 30	(117,679)	(81,492)
PROFIT BEFORE INCOME TAXES		120,272	91,303
Income tax expense	12	(29,265)	(19,329)
NET PROFIT		91,007	71,974

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
18 March 2011
Minsk

Chief Accountant
T. Pivovar
18 March 2011
Minsk

The notes on pages 10-60 form an integral part of these financial statements.

BELGAZPROMBANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(in millions of Belarusian Rubles)

	Year ended 31 December 2010	Year ended 31 December 2009
NET PROFIT	91,007	71,974
OTHER COMPREHENSIVE INCOME/(LOSS)		
Transfer of accumulated losses from comprehensive income to profit or loss upon disposal of investments available for sale	75	276
Net change in fair value of investments available for sale	-	(75)
TOTAL OTHER COMPREHENSIVE INCOME	75	201
TOTAL COMPREHENSIVE INCOME	91,082	72,175

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
18 March 2011
Minsk

Chief Accountant
T. Pivovar
18 March 2011
Minsk

The notes on pages 10-60 form an integral part of these financial statements.

BELGAZPROMBANK

BALANCE SHEET
AS AT 31 DECEMBER 2010
(in millions of Belarusian Rubles)

	Notes	31 December 2010	31 December 2009
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	13	216,642	95,829
Precious metals		1,243	632
Securities at fair value through profit or loss	14, 30	134,913	10,421
Derivative financial instruments, assets	15	44,349	18,040
Due from banks and other financial institutions	16, 30	161,454	350,931
Loans to customers	17, 30	1,784,181	1,331,582
Investments available for sale	18	106,529	210,512
Non-current assets held for sale	19	2,925	12,882
Property, equipment and intangible assets	20	74,477	56,342
Other assets	21	49,007	13,067
TOTAL ASSETS		2,575,720	2,100,238
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments, liabilities	15, 30	3,056	2,780
Loans from the National Bank of the Republic of Belarus	22	6,403	12,227
Due to banks and other financial institutions	23, 30	547,589	437,179
Customer accounts	24, 30	1,107,931	1,008,138
Debt securities issued	25	239,169	61,151
Current income tax liabilities		9,829	1,255
Deferred income tax liabilities	12	787	1,762
Other liabilities	26	23,664	9,867
Subordinated debt	27, 30	15,000	14,315
Total liabilities		1,953,428	1,548,674
EQUITY:			
Share capital	28	434,316	434,316
Investments available for sale revaluation reserve		-	(75)
Retained earnings		187,976	117,323
Total equity		622,292	551,564
TOTAL LIABILITIES AND EQUITY		2,575,720	2,100,238

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
18 March 2011
Minsk

Chief Accountant
T. Pivovar
18 March 2011
Minsk

The notes on pages 10-60 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(in millions of Belarusian Rubles)

	Notes	Share Capital	Investments available for sale revaluation reserve	Retained earnings	Total equity
31 December 2008		226,641	(276)	55,020	281,385
Share capital increase by issue of ordinary shares		207,675	-	-	207,675
Total comprehensive income for the year		-	201	71,974	72,175
Dividends declared	28	-	-	(9,671)	(9,671)
31 December 2009		434,316	(75)	117,323	551,564
Total comprehensive income for the year		-	75	91,007	91,082
Dividends declared	28	-	-	(20,354)	(20,354)
31 December 2010		434,316	-	187,976	622,292

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
18 March 2011
Minsk

Chief Accountant
T. Pivovar
18 March 2011
Minsk

The notes on pages 10-60 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(in millions of Belarusian Rubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		120,272	91,303
Adjustments for:			
Provision for impairment losses on interest bearing assets		24,051	31,227
Other provisions		3,814	660
Depreciation and amortization		6,446	4,308
(Gain)/loss on sale of investments available for sale		(136)	159
Loss/(gain) on disposal of property, equipment, intangible and other assets		196	(376)
Accrual/(recovery of accrual) of compensation payable to employees		1,941	(82)
Change in interest accruals, net		(12,404)	3,878
Translation differences, net		(8,888)	(3,573)
Net change in fair value of derivative financial instruments		(26,033)	(15,681)
Cash flows from operating activities before changes in operating assets and liabilities		109,259	111,823
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		11,779	1,979
Due from banks and other financial institutions		(61,925)	22,255
Precious metals		(611)	14
Securities at fair value through profit or loss		(120,432)	61,392
Loans to customers		(452,537)	(185,970)
Other assets		(19,382)	2,757
Increase/(decrease) in operating liabilities:			-
Loans from the National Bank of the Republic of Belarus		(6,341)	(86,520)
Due to banks and other financial institutions		25,123	(218,006)
Customer accounts		96,668	387,105
Other liabilities		8,395	519
Cash (outflow)/inflow from operating activities before taxation		(410,004)	97,348
Income taxes paid		(21,666)	(17,193)
Net cash (outflow)/inflow from operating activities		(431,670)	80,155

The notes on pages 10-60 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2010
(in millions of Belarusian Rubles)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009 (restated)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(37,283)	(26,111)
Proceeds on sale of property, equipment and intangible assets		280	414
Proceeds on sale of non-current assets held for sale		16,281	10,066
Proceeds on disposal/(purchase) of investments available for sale, net		104,279	(43,457)
Net cash inflow/(outflow) from investing activities		83,557	(59,088)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase by issue of ordinary shares		-	207,675
Raising finance by issuing debt securities, net		174,145	3,055
Repayment of loans from international financial institutions		(26,271)	(21,673)
Attraction of loans from international financial institutions		97,085	56,840
Dividends paid		(20,354)	(9,671)
Net cash inflow from financing activities		224,605	236,226
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(123,508)	257,293
Effect of changes in foreign exchange rates on cash and cash equivalents		742	5,515
CASH AND CASH EQUIVALENTS, beginning of year	13	411,280	148,472
CASH AND CASH EQUIVALENTS, end of year	13	288,514	411,280

Interest paid and received by the Bank during the year ended 31 December 2010 amounted to BYR 123,009 million and BYR 259,563 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2009 amounted to BYR 132,615 million and BYR 244,008 million, respectively.

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
18 March 2011
Minsk

Chief Accountant
T. Pivovar
18 March 2011
Minsk

The notes on pages 10-60 form an integral part of these financial statements.

(in millions of Belarusian Rubles unless otherwise stated)

1. ORGANISATION

Belarusian-Russian Belgazprombank Joint Stock ("Belgazprombank" or the "Bank") initially named as "Bank Ekorazvitie" was established and registered with the National Bank of the Republic of Belarus (the "National Bank") as an open joint stock company in 1990. In March 1994 the Bank was renamed into "Bank Olimp". RAO "Gazprom" (Russian Federation) and "Gazprombank" (CJSC) (the Russian Federation) acquired controlling interest of the Bank in 1996. The Bank was reorganized into an open joint stock company "Belgazprombank" in November 1997.

The Bank conducts its business under the license for performing banking operations # 8 issued by the National Bank of the Republic of Belarus on 27 October 2006. The Bank accepts deposits from the public, grants loans, transfers payments in the Republic of Belarus and abroad, exchanges currencies, carries out operations with securities and provides other banking services to its corporate customers and individuals.

The Bank's registered office is 60/2 Pritytskogo Str., Minsk, 220121 Republic of Belarus.

As at 31 December 2010 and 2009 the Bank had 8 regional branches in the Republic of Belarus.

As at 31 December 2010 and 2009 the structure of the Bank's share capital was as follows:

Shareholders	**%**
JSC "Gazprom" (Russian Federation)	49.02
Gazprombank (Open Joint Stock Company) (Russian Federation)	49.02
JSC "Beltransgaz" (Republic of Belarus)	1.43
State Property Committee of the Republic of Belarus	0.53
Other	less than 0.01
Total	100.00

The ultimate controlling party of the Bank is JSC "Gazprom", whose controlling interest is held by the Government of the Russian Federation.

These financial statements were authorized for issue by the Chairman of the Management Board of the Bank on 18 March 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Bank in the Republic of Belarus. The Management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

These financial statements are presented in millions of Belarusian rubles ("BYR million"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of certain non-monetary assets that occurred before 31 December 2005 and are recognized according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

In accordance with IAS 29 the economy of the Republic of Belarus was considered to be hyperinflationary during 2005 and prior years. Starting 1 January 2006, the economy of the Republic of Belarus is no longer considered to be hyperinflationary and the values of non-monetary assets, liabilities and equity as stated in measuring units at 31 December 2005 have formed the basis for the amounts carried forward to 1 January 2006.

The Bank maintains its accounting records in accordance with the legislation of the Republic of Belarus. These financial statements have been prepared from the Belarusian statutory accounting records and have been adjusted to conform to IFRS.

The Bank presents its balance sheet accounts broadly in order of liquidity. An analysis regarding recovery of assets or repayment of liabilities within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 33.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets measured at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest method and the sale price when such instruments are sold to third parties. When the reverse repo/repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest rate method.

Recognition of revenue – other

Recognition of fee and commission income

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized when services are provided.

Financial instruments

The Bank recognizes financial assets and liabilities in its balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Belarus with original maturity within 90 days, loans and advances to banks with original maturity within 90 days, except for guarantee deposits and other restricted balances, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of the Republic of Belarus is not included as a cash equivalent due to restrictions on its availability.

Financial assets at fair value through profit of loss

Financial assets are classified as at fair value through profit of loss when the financial asset is either held for trading or it is designated as at fair value through profit of loss. The Bank classifies trading securities and derivative financial instruments into this category.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit of loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 31.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Unlisted shares and bonds classified as available-for-sale that are not traded in an active market are stated at fair value. Fair value is determined in the manner described in Note 31. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Derivative financial instruments

The Bank uses derivative financial instruments, namely forward exchange contracts, to manage its exposure to foreign exchange rate risk. Further details of derivative financial instruments are disclosed in Note15.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. As foreign currency forwards do not have an active market in the Republic of Belarus they are measured using interest rates parity model. The resulting gain or loss is recognised in profit or loss immediately.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Repurchase and reverse repurchase agreements

In the normal course of business the Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements of financial assets (“reverse repos”). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified within balances due from banks and/or loans to customers.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Belarus and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

The transfer of securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually 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.

If an available-for-sale asset is impaired, than income and expenses recognized in other comprehensive income are transferred to the profit and loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Write-off of loans

Loans are written-off against allowance for impairment losses when deemed uncollectible, including through repossession of collateral. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank.

Derecognition of financial assets

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities

Other financial liabilities, including loans with the National Bank, due to banks and customer accounts, debt securities issued, other borrowed funds and other liabilities, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Bank as lessee

Assets held under finance leases are initially recognised as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property and equipment

Property and equipment acquired after 1 January 2006 are carried at historical cost less accumulated depreciation and any recognized impairment loss. Property and equipment acquired before 1 January 2006 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. It is calculated on a straight line basis at the following annual rates:

	Year ended 31 December 2010	**Year ended 31 December 2009**
Buildings	1%	1%
Computer equipment, furniture and other equipment	10-20%	10-20%
Vehicles	14%	14%
Intangible assets	10-20%	10-20%

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible asset

On an ongoing basis, the Bank reviews the carrying amounts of its tangible and definitely-lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

The Republic of Belarus, where the Bank operates, also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingencies

Contingent liabilities are not recognized in the balance sheet but are disclosed in the financial statements unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the balance sheet but disclosed when an inflow of economic benefits is probable.

Functional currency

The functional currency of these financial statements is the national currency of the Republic of Belarus – Belarusian Ruble.

Foreign currencies

In preparing the financial statements of each individual Bank's entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The exchange rates at the year-end used by the Bank in the preparation of the financial statements are as follows:

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

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and 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 group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Republic of Belarus and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Measurement of derivative financial instruments fair value

Derivative financial instruments representing foreign currency forwards do not have an active market and are measured using interest rates parity model.

Useful lives of property and equipment

As described above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

New and revised IFRS used by the Bank

The following new and revised standards and interpretations have been adopted for the first time in preparation of these financial statements. Their adoption had no material effect on the financial statements but it may effect the treatment of future transactions.

Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the financial statements.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the balance sheet can be classified as investing activities in the statement of cash flows.
Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)	The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The Bank has applied the amendments in advance of their effective date (annual periods beginning on or after 1 January 2011). The amendments have been applied retrospectively.

New and revised IFRSs in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRS		Effective for annual periods beginning on or after
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 9 (as amended in 2010)	Financial Instruments	1 January 2013
IAS 24 (revised in 2009)	Related Party Disclosures	1 January 2011
Amendments to IAS 32	Classification of Rights Issues	1 February 2010
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011
Amendments to IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Improvements to IFRSs issued in 2010		1 July 2010 and 1 January 2011

IFRS 9 "Financial Instruments" issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The management anticipates that IFRS 9 that will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to IFRS 7 titled "Disclosures – Transfers of Financial Assets" increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Bank's financial statements.

IAS 24 "Related Party Disclosures" (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) affect the Bank, as the ultimate controlling party of the Bank is JSC "Gazprom", whose controlling interest is held by the Government of the Russian Federation. The organizations under control or significant influence of the Russian Federation are related parties of the Bank. The Bank plans not to apply this exemption and to disclose the complete information on the operations with the related parties.

The amendments to IAS 32 titled "Classification of Rights Issues" address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Bank has not entered into any arrangements that would fall within the scope of the amendments. However, if the Bank does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Bank has not entered into transactions of this nature. However, if the Bank does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

4. RESTATEMENTS AND RECLASSIFICATIONS

In 2010 the Bank's management determined that the statement of cash flows for the year ended 31 December 2009 had not been appropriately presented in the financial statements for the year ended 31 December 2009 due to the following: the Bank had omitted from its "Cash and cash equivalents" certain unrestricted correspondent bank accounts.

The effect of the adjustments made to the financial statements for the year ended 31 December 2009 is as follows:

	As previously reported	**Amount of adjustment**	**As restated**
Cash and cash equivalents as at 31 December 2008	119,867	28,605	148,472
Cash and cash equivalents as at 31 December 2009	177,932	233,348	411,280
Net cash inflow/(outflow) from operating activities for the year ended 31 December 2009	(124,588)	204,743	80,155
(Increase)/decrease in due from banks and other financial institutions for the year ended 31 December 2009	(182,488)	204,743	22,255

5. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income on financial assets recorded at amortized cost:		
Interest income on financial assets impaired collectively	159,835	149,552
Interest income on financial assets impaired individually	81,550	57,061
Interest income on unimpaired financial assets	15,325	16,688
Interest income on financial assets at fair value	16,241	19,199
Total interest income	272,951	242,500
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	240,083	206,554
Interest on balances due from banks	15,325	16,688
Other interest income	1,302	59
Total interest income on financial assets recorded at amortized cost	256,710	223,301
Interest income on financial assets at fair value:		
Interest on investment available for sale	14,482	17,942
Interest on securities at fair value through profit or loss	1,759	1,257
Total interest income on financial assets at fair value	16,241	19,199
Interest on financial liabilities recorded at amortized cost	123,993	134,985
Total interest expense	123,993	134,985
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	80,715	76,069
Interest on deposits from banks and other financial institutions, on loans from National Bank and subordinated debt	27,935	53,443
Interest on debt securities issued	15,343	5,473
Total interest expense on financial liabilities recorded at amortized cost	123,993	134,985
Net interest income before provision for impairment losses on interest bearing assets	148,958	107,515

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest bearing assets were as follows:

	Loans to customers
31 December 2008	25,113
Provision	31,227
Write-off of assets	(11,601)
31 December 2009	44,739
Provision	24,051
Write-off of assets	(16,365)
31 December 2010	52,425

The movements in allowances for impairment losses on other transactions were as follows:

	Other assets	Guarantees and other commitments	Total
31 December 2008	113	54	167
Provision	198	462	660
Payment on a guarantee contract	-	(232)	(232)
31 December 2009	311	284	595
Provision	995	2,819	3,814
Payment on a guarantee contract	-	(228)	(228)
31 December 2010	1,306	2,875	4,181

Allowances for impairment losses on assets are deducted from the related assets. Provisions for guarantees and other commitments are recorded in other liabilities.

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2010	Year ended 31 December 2009
Dealing, net	13,227	19,474
Translation differences, net	8,888	3,573
Total net gain on foreign exchange operations	22,115	23,047

8. NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial instruments at fair value through profit or loss comprises:

	Year ended 31 December 2010	Year ended 31 December 2009
Net gain on derivative financial instruments	23,678	18,070
Net gain on securities at fair value through profit or loss	5,767	6,591
Total net gain on operations with financial instruments at fair value through profit or loss	29,445	24,661

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Fee and commission income		
Settlement and cash operations with clients	34,369	25,205
Plastic cards operations	17,333	11,046
Foreign exchange operations	7,608	13,603
Documentary operations	3,376	1,396
Settlements with banks	150	660
Other	444	402
Total fee and commission income	63,280	52,312
Fee and commission expense		
Plastic cards operations	6,826	4,303
Documentary operations	2,084	1,022
Interbank accounts maintenance	1,597	1,451
Operations with securities	485	499
Foreign exchange and cash operations	426	277
Other	481	189
Total fee and commission expense	11,899	7,741

10. OTHER INCOME

Other income comprises:

	Year ended 31 December 2010	Year ended 31 December 2009
Fines and penalties	4,306	1,759
Net gain on operations with precious metals	400	384
Other	836	2,284
Total other income	5,542	4,427

11. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Staff costs	53,154	33,932
Social security contributions	13,001	10,376
Depreciation and amortization	6,446	4,308
Rent and property and equipment maintenance	5,473	4,529
Expenses for services of automated interbank settlement system	5,373	3,716
Contributions to deposits protection fund	5,240	3,595
Stationery and office expenses	4,547	3,346
Remuneration to the members of the Board of Directors and Revision Committee	3,400	1,616
Advertising costs	2,998	1,479
Charity and sponsorship expenses	2,916	1,920
Communications	1,564	1,318
Expenses on maintenance of banking software	1,534	1,053
Information and consulting services	1,533	1,057
Security expenses	1,416	989
Taxes, other than income taxes	1,390	2,717
Vehicles maintenance and fuel expenses	1,157	798
Other expenses	6,537	4,743
Total operating expenses	117,679	81,492

12. INCOME TAXES

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Belarus where the Bank operates, which may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Major sources of non-deductible expenses include expenses over prescribed norms. Major amounts of non-taxable income relate to operations with securities issued by the Belarusian government, companies and banks.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2010 and 2009 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax book bases' differences for certain assets.

The Bank provides for current income taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2010 and 2009, tax rate for the Bank was 24% for the republican tax and 3% for the municipal tax. The rates were charged successively and the combined rate was 26.28%.

Starting from 1 January 2011 3% municipal tax is no longer withheld, and deferred taxes as at 31 December 2010 were calculated using 24% tax rate.

Tax effect of temporary differences as at 31 December 2010 and 2009 comprise:

	31 December 2010	31 December 2009
Property, equipment and intangible assets	3,951	1,905
Other liabilities	2,044	1,602
Other assets	948	596
Debt securities issued	449	-
Accrued interest income	-	(6,424)
Due from banks	(182)	(618)
Provision for guarantees and letters of credit	(551)	(382)
Due to banks and other financial institutions	(582)	(638)
Loans to customers	(2,601)	55
Net deferred tax liabilities	(787)	(1,762)
Unrecognized deferred tax asset	-	-
Net deferred tax liabilities	(787)	(1,762)

The effective tax rate reconciliation is as follows for the years ended 31 December 2010 and 2009:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income taxes	120,272	91,303
Tax at the statutory tax rate (26.28%)	31,607	23,994
Change in unrecognized deferred tax asset	-	(53)
Tax effect of non-deductible expenses	6,255	2,443
Tax effect of non-taxable income and other deductions	(6,064)	(6,422)
Tax effect of change in tax base of property and equipment due to revaluation performed for tax purposes	(2,458)	(633)
Tax effect of change in income tax rate	(75)	-
Income tax expense	29,265	19,329
Current income tax expense	30,240	17,567
Deferred tax (benefit)/expense recognized in income statement	(975)	1,762
Income tax expense	29,265	19,329

Deferred tax liabilities	Year ended 31 December 2010	Year ended 31 December 2009
As at 1 January – deferred tax liabilities	1,762	-
Change in deferred income tax recognized in profit or loss	(975)	1,762
As at 31 December – deferred tax liabilities	787	1,762

13. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

	31 December 2010	31 December 2009
Correspondent accounts with the National Bank	133,266	25,245
Cash	75,565	50,994
Balance on reserve deposit account with the National Bank	7,811	19,590
Total cash and balances with the National Bank	216,642	95,829

The Bank is required to maintain the minimum reserve deposit balance at the National Bank at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2010	31 December 2009
Cash and balances with the National Bank	216,642	95,829
Due from banks and other financial institutions with original maturity within 90 days	79,683	335,041
Less minimum reserve deposits with the National Bank	(7,811)	(19,590)
Total cash and cash equivalents	288,514	411,280

14. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities at fair value through profit or loss comprise the following trading securities:

	Interest to nominal	31 December 2010	31 December 2009
Bonds:			
US Treasury bonds	1.25%	72,169	-
Eurobonds issued by Belarusian banks	9.95%	27,467	-
Eurobonds issued by the Ministry of Finance of the Republic of Belarus	8.75%	31,897	-
JSC “Gazprom” eurobonds (Russian Federation)	8.63%	-	3,187
Shares:			
Shares of Russian companies		2,227	4,530
Shares of Russian banks		1,153	2,704
Total securities at fair value through profit or loss		134,913	10,421

15. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2010 derivative financial instruments comprise:

	Nominal amount (in units of purchased currency)	Fair value	
		Asset	Liability
Foreign currency forward contracts:			
USD/BYR	USD 167,356,069	38,730	(3,002)
EUR/BYR	EUR 27,255,785	5,491	-
BYR/USD	BYR 5,463,271,000	81	-
EUR/USD	EUR 12,500,000	23	(31)
USD/EUR	USD 668,300	19	-
USD/GBP	USD 3,100,744	5	-
RUB/USD	RUB 213,521,000	-	(8)
GBP/USD	GBP 2,000,000	-	(15)
Total derivative financial instruments		44,349	(3,056)

As at 31 December 2010 derivative financial instruments included foreign currency forward contracts with the National Bank with the fair value of BYR 44,223 million (assets) and BYR 3,002 million (liabilities).

As at 31 December 2009 derivative financial instruments comprise:

	Nominal amount (in units of purchased currency/ contractual value of securities to be purchased)	Fair value	
		Asset	Liability
Foreign currency forward contracts:			
USD/BYR	USD 75,000,000	17,882	(2,512)
EUR/USD	EUR 36,500,000	6	(179)
RUB/USD	RUB 121,061,600	-	-
USD/RUB	USD 2,500,000	-	(7)
USD/EUR	USD 2,866,500	-	(5)
Securities forward contracts:			
JSC “Promsvyazbank” eurobonds (Russian Federation)	USD 2,500,000	110	-
CJSC “Alfa-bank” eurobonds (Ukraine)	USD 1,462,000	42	-
JSC “Gazprom” eurobonds (Russian Federation)	USD 2,230,000	-	(77)
Total derivative financial instruments		18,040	(2,780)

As at 31 December 2009 derivative financial instruments included foreign currency forward contracts with the National Bank at fair value of BYR 17,882 million (assets) and BYR 2,512 million (liabilities).

16. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	31 December 2010	31 December 2009
Time deposits	81,696	213,256
Correspondent and demand accounts	44,526	125,461
Settlements with Belarusian Currency Stock Exchange	35,232	12,214
Total due from banks	161,454	350,931

As at 31 December 2009 the Bank had balances due from two banks in the amount of BYR 194,057 million, each individually exceeding 10% of the Bank's equity.

As at 31 December 2010 and 2009 included in balances due from banks were amounts of BYR 75 million and BYR 15,090 million, respectively, placed as guarantee deposits on plastic cards settlements with the international payment systems and operation with securities.

17. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2010	31 December 2009
Originated loans	1,792,374	1,328,866
Net investments in finance lease	44,232	47,455
	1,836,606	1,376,321
Less allowance for impairment losses	(52,425)	(44,739)
Total loans to customers	1,784,181	1,331,582

Movements in allowances for impairment losses for the years ended 31 December 2010 and 2009 are disclosed in Note 6.

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2010	31 December 2009
Loans collateralized by real estate and rights thereon	478,793	311,650
Loans collateralized by equipment and rights thereon	288,921	191,417
Loans collateralized by liens over receivables	282,993	172,636
Loans collateralized by inventories	263,198	87,978
Loans collateralized by guarantees of individuals	200,682	189,175
Loans collateralized by guarantees of legal entities	31,150	88,722
Loans collateralized by securities	10,245	-
Loans collateralized by cash or guarantee deposits	2,689	126,589
Loans collateralized by other or mixed types of collateral	277,935	208,154
	1,836,606	1,376,321
Less allowance for impairment losses	(52,425)	(44,739)
Total loans to customers	1,784,181	1,331,582

Analysis by sector:	31 December 2010	31 December 2009
Production	632,200	281,741
Individuals	491,971	435,858
Trade	438,920	284,696
Gas transportation	75,494	180,588
Construction	49,216	62,290
Real estate	45,734	68,357
Transport and communication	40,873	37,918
Lease companies	27,291	13,803
Telecom and information services	9,730	6,036
Agriculture	5,505	1,167
Other	19,672	3,867
	1,836,606	1,376,321
Less allowance for impairment losses	(52,425)	(44,739)
Total loans to customers	1,784,181	1,331,582

As at 31 December 2010 the Bank provided loans to three customers totalling BYR 344,683 million before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

As at 31 December 2009 the Bank provided a loan to one customer totalling BYR 180,588 million before allowance for impairment losses which exceeded 10% of the Bank's equity.

All loans are granted to companies operating in the Republic of Belarus, which represents significant geographical concentration in one region.

Loans to individuals comprise the following products:

	31 December 2010	31 December 2009
Loans to finance real estate	114,544	75,119
Plastic cards	109,123	90,784
Consumer loans "Delay"	104,092	73,257
Consumer loans	78,679	86,953
Car loans	73,473	95,833
Microloans to individual entrepreneurs	11,388	13,270
Other	672	642
	491,971	435,858
Less allowance for impairment losses	(13,237)	(10,762)
Total loans to individuals	478,734	425,096

Consumer loans "Delay" represent a program according to which individuals pay by instalments for the consumer goods purchased in the chain of stores participating in the program.

Analysis of loans and allowances for impairment losses by class of loans and impairment assessment method as at 31 December 2010 and 2009 is presented in the following table.

	31 December 2010		
	Loans before allowance for impairment losses	**Allowance for impairment losses**	**Loans less allowance for impairment losses**
Loans assessed for impairment individually	820,202	(31,410)	788,792
Loans assessed for impairment collectively	1,016,404	(21,015)	995,389
Total loans to customers	1,836,606	(52,425)	1,784,181

	31 December 2009		
	Loans before allowance for impairment losses	**Allowance for impairment losses**	**Loans less allowance for impairment losses**
Loans assessed for impairment individually	370,943	(21,655)	349,288
Loans assessed for impairment collectively	1,005,378	(23,084)	982,294
Total loans to customers	1,376,321	(44,739)	1,331,582

The components of net investment in finance lease as at 31 December 2010 and 2009 are as follows:

	31 December 2010	**31 December 2009**
Less than one year	26,594	31,678
From one year to five years	28,233	31,239
Minimum lease payments	54,827	62,917
Less: unearned finance income	(10,595)	(15,462)
Net investment in finance lease	44,232	47,455
Current portion	20,516	20,452
Long-term portion	23,716	27,003
Net investment in finance lease	44,232	47,455

18. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Interest to nominal	**31 December 2010**	**Interest to nominal**	**31 December 2009**
Bonds issued by Belarusian banks, BYR	11.5% - 12%	76,459	19%	29,708
Bonds issued by local authorities	11.5%	30,000		-
Long-term government bonds		-	11%	154,293
Bonds issued by Belarusian banks, USD		-	11%	26,079
Units in investment funds		-		362
Other unquoted equity instruments		70		70
Total investments available for sale		106,529		210,512

Long-term government bonds ("GDO") – BYR denominated government securities with original maturity of one year or more issued by the Ministry of Finance of the Republic of Belarus that bear coupon income or are sold at discount to face value.

Units in investment funds are represented by investments in the unit investment fund, managed by a Russian investment company.

As at 31 December 2009 GDO at fair value of BYR 107,812 million were pledged as collateral under repurchase agreements with Belarusian banks with maturity up to 1 month from the reporting date (Note 23).

19. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are presented by the real estate and vehicles which were received through repossession of collateral pledged under the default loans.

The Bank actively sells the property, holds negotiations with potential buyers and searches for new buyers, including wholesale ones. The management of the Bank expects the sale of all non-current assets held for sale to occur in 2011.

20. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings	**Computer equipment, furniture and other equipment**	**Vehicles**	**Construction in progress**	**Intangible assets**	**Total**
At initial cost, restated for hyperinflation effect						
31 December 2008	23,019	15,462	2,939	2,218	5,165	48,803
Additions	-	-	-	19,527	3,610	23,137
Transfers among categories	4,876	6,336	579	(12,081)	290	-
Disposals	-	(612)	(132)	-	(1,179)	(1,923)
31 December 2009	27,895	21,186	3,386	9,664	7,886	70,017
Additions	-	-	-	21,134	3,795	24,929
Transfers among categories	14,670	9,057	1,009	(25,677)	941	-
Disposals	(180)	(591)	(274)	(62)	(549)	(1,656)
31 December 2010	42,385	29,652	4,121	5,059	12,073	93,290
Accumulated depreciation, restated for hyperinflation effect						
31 December 2008	2,248	6,720	1,086	-	1,198	11,252
Charge for the year	594	1,855	431	-	1,428	4,308
Eliminated on disposals	-	(574)	(132)	-	(1,179)	(1,885)
31 December 2009	2,842	8,001	1,385	-	1,447	13,675
Charge for the year	818	3,001	498	-	2,129	6,446
Eliminated on disposals	(25)	(492)	(243)	-	(548)	(1,308)
31 December 2010	3,635	10,510	1,640	-	3,028	18,813
Net book value						
31 December 2010	38,750	19,142	2,481	5,059	9,045	74,477
31 December 2009	25,053	13,185	2,001	9,664	6,439	56,342

21. OTHER ASSETS

Other assets comprise:

	31 December 2010	31 December 2009
Other financial assets:		
Receivable for sale of non-current assets held for sale	8,999	4,554
Settlements on plastic cards	5,041	131
Commission income and fines accrued	3,280	283
Other debtors	4,399	1,339
Less allowance for impairment losses	(1,306)	(311)
Total other financial assets	20,413	5,996
Other non-financial assets:		
Prepayments for property, equipment and other assets	19,204	4,218
Taxes recoverable and prepaid other than income taxes	6,197	1,541
Inventory in stock	612	600
Prepaid expenses and other non-financial assets	2,581	712
Total other assets	49,007	13,067

Movements in allowance for impairment losses on other assets for the years ended 31 December 2010 and 2009 are disclosed in Note 6.

22. LOANS FROM THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

Loans from National Bank comprise:

	31 December 2010	31 December 2009
Loan from National Bank financed by the international financial institutions for lending to small and medium size enterprises	6,403	12,227
Total loans from National Bank	6,403	12,227

As at 31 December 2010 and 2009 the amounts due to the National Bank comprise long-term loan with maturity period of each tranche up to 36 months granted in US dollars and financed by the European Bank for Reconstruction and Development (“EBRD”) for further financing of small and medium size enterprises in the Republic of Belarus. Interest rate on the loan is floating and is linked to LIBOR.

23. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2010	31 December 2009
Loans from banks and non-banking financial institutions	293,865	190,265
Loans from European Bank for Reconstruction and Development (“EBRD”)	130,802	116,360
Correspondent and demand accounts of other banks	62,858	27,098
Loans from European Fund for Southeast Europe (“EFSE”)	59,055	-
Loans from International Financial Corporation (“IFC”)	1,009	4,286
Loans under repurchase agreements	-	99,170
Total due to banks and other financial institutions	547,589	437,179

As at 31 December 2010 due to banks and other financial institutions included loans from four financial institutions totalling BYR 399,914 million, which represented significant concentration (73% of the total).

As at 31 December 2009 due to banks and other financial institutions included loans from five banks totalling BYR 345,677 million, which represented significant concentration (79% of the total).

As at 31 December 2009 liabilities under repurchase agreements were collateralized by long-term government bonds (Note 18).

24. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2010	31 December 2009
Time deposits	602,294	640,910
Current/settlement accounts and deposits repayable on demand	505,637	367,228
Total customer accounts	1,107,931	1,008,138

As at 31 December 2010 and 2009 customer accounts amounting to BYR 260,079 million (23% of the total) and BYR 319,321 million (32% of the total) were due to three customers which represented significant concentration.

As at 31 December 2010 and 2009 customer accounts of BYR 16,014 million and BYR 28,049 million, respectively, were held as security against letters of credit, guarantees and loans issued by the Bank.

Analysis by sector:	31 December 2010	31 December 2009
Individuals	477,542	364,906
Trade	172,504	139,157
Manufacturing	145,756	162,114
Gas transportation	140,435	201,973
Investments and real estate operations	51,165	43,182
Leasing	34,154	32,925
Construction	25,997	20,680
Transport and communication	23,425	10,758
Insurance and financial services	14,147	14,367
Other	22,806	18,076
Total customer accounts	1,107,931	1,008,138

25. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2010	31 December 2009
Bonds	239,169	61,150
Promissory notes	-	1
Total debt securities issued	239,169	61,151

Bonds issued by the Bank are held by individuals and legal entities.

26. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2010	31 December 2009
Other financial liabilities:		
Compensation payable to employees	7,133	5,192
Settlements for property and equipment and other assets acquired	587	-
Settlements on other banking operations and accrued expenses	8,756	850
Total other financial liabilities	16,476	6,042
Other non-financial liabilities:		
Provision for guarantees and other commitments	2,875	284
Taxes payable, other than income taxes	2,414	1,513
Contributions payable to deposits security fund	1,407	1,075
Prepayments received	154	953
Other non-financial liabilities	338	-
Total other liabilities	23,664	9,867

Movements in provision for guarantees and other commitments for the years ended 31 December 2010 and 2009 are disclosed in Note 6.

27. SUBORDINATED DEBT

As at 31 December 2010 and 2009 the Bank had the subordinated debt from JSC "Gazprombank" for the amount of USD 5 million, which corresponds to BYR 15,000 million and BYR 14,315 million, respectively, with a maturity date on 25 March 2012. Interest rate on the debt is floating and is linked to LIBOR (LIBOR+6%). Repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

28. SHARE CAPITAL

As at 31 December 2010 and 2009 authorized, issued and fully paid capital of the Bank consisted of 426,008,799,649 ordinary shares and 260,044,863 preference shares all with par value of BYR 1 each (at historical cost).

All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting. Preference shares are entitled to annual dividend, the amount of which is determinable by annual shareholders meetings, but which may not be less than 1% of par value.

During the years ended 31 December 2010 and 2009 the Bank declared and paid BYR 20,354 million and BYR 9,671 million dividends on ordinary and preference shares what comprised BYR 0.05 and BYR 0.04 per share for the years 2009 and 2008, respectively.

The Bank's retained earnings distributable to shareholders are limited to the amount of funds that are stated in the official financial statements prepared according to the Belarusian accounting rules. As per these financial statements at 31 December 2010 and 2009 the retained earnings comprised BYR 148,367 million and BYR 86,219 million, respectively (not audited). Non-distributable funds comprise property and equipment revaluation fund and reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities. In accordance with the legislation the reserve fund is created for the mentioned objectives in the amount of no less than 5% of the Bank's share capital stated in the financial statements under statutory accounting principles.

29. COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

As at 31 December 2010 and 2009 the nominal or contract amounts of contingent liabilities and commitments were:

	31 December 2010	31 December 2009
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	37,586	21,594
Letters of credit, covered by cash	10,185	22,887
Letters of credit, not covered by cash	81,313	328
Commitments on loans and unused credit lines, cancellable	94,499	108,136
Commitments on loans and unused credit lines, non-cancellable	169,005	31,495
Total contingent liabilities and credit commitments	392,588	184,440

***Legal proceedings* –** From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

***Pensions and retirement plans* –** Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2010 and 2009 the Bank had no material liabilities for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

***Capital commitments* –** As at 31 December 2010 the Bank had contractual capital commitments in the amount of USD 29,200,000 in accordance with agreement on joint investment project (construction of multi-storey office building with underground car parking to be used subsequently as a head office of the Bank in Minsk). The expiration date of the agreement is determined by the date of putting the building into operation – December 2013. As at 31 December 2010 the Bank paid USD 1,585,483 in accordance with the agreement, recorded as a prepayment for fixed assets (Note 21).

The Bank did not have material capital commitments outstanding as at 31 December 2009.

***Operating lease commitments* –** As at 31 December 2010 and 2009 the Bank did not have any non-cancellable operating lease agreements.

Other contingent liabilities – As at 31 December 2010 and 2009 the Bank had contingent liabilities relating to guarantees issued as to settlements in MasterCard system in the amount of BYR 1,161 million and BYR 1,108 million, respectively.

Legislation – Certain provisions of Belarusian commercial legislation and tax legislation in particular may give rise to varying interpretations and inconsistent application. In addition, as management's interpretation of legislation may differ from that of the authorities, statutory compliance may be challenged by the authorities, and as result the Bank may face additional taxes and charges and other preventive measures. The management of the Bank believes that it has already made all tax and other payments or accruals, and therefore no additional allowance has been made in the financial statements. Past fiscal years remain open to review by the authorities.

30. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following balances on transactions with related parties:

	31 December 2010		**31 December 2009**	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Securities at fair value through profit or loss	**2,440**	**134,913**	**7,063**	**10,421**
- shareholders			3,187	
- entities under common control	2,440		3,876	
Due from banks	**59,556**	**161,454**	**6,169**	**350,931**
- shareholders	5,925		5,149	
- entities under common control	53,631		1,020	
Loans to customers before allowance for impairment losses	**81,118**	**1,836,606**	**4,849**	**1,376,321**
- entities under common control	76,369			
- key management personnel	4,749		4,849	
Allowance for impairment losses	**1,076**	**52,425**	**123**	**44,739**
- entities under common control	948			
- key management personnel	128		123	
Derivative financial instruments (liabilities)	**-**	**3,056**	**77**	**2,780**
- shareholders	-		77	
Due to banks and other financial institutions	**178,123**	**547,589**	**169,292**	**437,179**
- shareholders	139,198		68,201	
- entities under common control	38,925		101,091	
Customer accounts	**279,121**	**1,107,931**	**125,573**	**1,008,138**
- shareholders	22		73	
- entities under common control	273,421		120,879	
- key management personnel	5,678		4,621	
Subordinated debt	**15,000**	**15,000**	**14,315**	**14,315**
- shareholders	15,000		14,315	
Commitments and contingencies	**815**	**392,588**	**100**	**184,440**
- entities under common control	80			
- key management personnel	735		100	

Included in the income statement for the years ended 31 December 2010 and 2009 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	**11,275**	**272,951**	**793**	**242,500**
- shareholders	248		8	
- entities under common control	10,609		224	
- key management personnel	418		561	
Fee and commission income	**1,741**	**63,280**	**363**	**52,312**
- shareholders	11		21	
- entities under common control	1,721		334	
- key management personnel	9		8	
Interest expenses	**(28,298)**	**(123,993)**	**(35,610)**	**(134,985)**
- shareholders	(7,220)		(12,892)	
- entities under common control	(20,499)		(22,199)	
- key management personnel	(579)		(519)	
Operating expenses	**(11,788)**	**(117,679)**	**(7,314)**	**(81,492)**
- key management personnel (remuneration)	(11,788)		(7,314)	
Provision for impairment losses on interest bearing assets	**(953)**	**(24,051)**	**(106)**	**(31,227)**
- entities under common control	(948)			
- key management personnel	(5)		(106)	

During the years ended 31 December 2010 and 2009 remuneration of key management personnel consisted of short-term employee benefits.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale.

Financial instruments for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

Due from bank

The management assumes that the fair value of term deposits in banks does not differ materially from the carrying value due to fact that all the deposits are placed at floating interest rates.

Loans to customers

Loans to customers are granted at both variable and at fixed rates. As there is no active secondary market in the Republic of Belarus for such loans and advances, there is no reliable market value available for this portfolio.

- The management believes that fair value of loans with floating interest rates does not materially differ from their carrying value.
- The management revises the rates for loans with fixed interest rates to correspond to the current market situation. As a result interest income on the most of balances is charged at rates which approximate market ones. Due to this fact the fair value of loans with fixed rates does not materially differ from their carrying value.

Financial investments available for sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted debt securities. The rates on these instruments are within the range of market rates. Thus the management considers that their carrying value approximates their fair value.

Customer accounts

Customer deposits have both variable and fixed rates.

- The management believes that fair value of deposits with floating interest rates does not materially differ from their carrying value.
- The management revises the rates for deposits with fixed interest rates to correspond to the current market situation. As a result interest expense on the most of balances is charged at rates which approximate market ones. Due to this fact the fair value of deposits with fixed rate does not materially differ from their carrying value.

Debt securities issued by the Bank

Debt securities are issued by the Bank at fixed rates with maturities up to one year. Most of the securities are nominated in foreign currency. Rates on the debt financial instruments are in line with the market ones. The management believes that fair value of such instruments does not materially differ from their carrying value.

Due to banks and other financial institutions

Loans from banks and other financial institutions are made both at variable and at fixed rates.

- Floating rate – the management believes that the carrying value may be accepted as fair value.
- Fixed rate – certain loans are attracted at fixed rate. Most of the loans with fixed rates have maturities up to one year and are nominated in foreign currency, and the fair value of loans from banks with fixed rate does not materially differ from the carrying value.

Financial instruments measured at fair value are broken down for disclosure purposes into levels based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Bank's fair value valuation approach for certain significant classes of financial instruments recognised at fair value is as follows:

	31 December 2010		**31 December 2009**	
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Quoted prices in active market (Level 1)**	**Valuation techniques based on observable market data (Level 2)**
Derivative financial instruments (assets)	-	44,349	152	17,888
Securities at fair value through profit or loss	134,913	-	10,421	-
Investments available for sale, less equity investments	-	106,459	362	210,080
Derivative financial instruments (liabilities)	-	3,056	77	2,703

32. CAPITAL MANAGEMENT

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee (Basel I):

	31 December 2010	**31 December 2009**
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	434,316	434,316
Retained earnings	187,976	117,323
Total qualifying tier 1 capital	622,292	551,639
Subordinated debt	3,708	6,393
Investments available for sale revaluation reserve	-	(75)
Total regulatory capital	626,000	557,957
Capital ratios:		
Tier 1 capital	27%	31%
Total capital	27%	31%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

As at 31 December 2010 and 2009, the Bank included in the computation of total capital for capital adequacy purposes the subordinated debt received. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

The Bank manages its capital to ensure compliance with prudential requirements and ability to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt to equity ratio.

The Bank's management reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The management estimates the amount of capital required to achieve strategic objectives and the planned increase of assets, as well as optimal balance between profitability and capital adequacy, considering requirements of the shareholders, partners of the Bank and regulatory institutions. The Bank performs analysis of risk factors, that influence the Bank's capital, and optimizes these risks by means of a balanced funding policy.

33. RISK MANAGEMENT POLICIES

Risk management plays essential role in the Bank's activities. The Bank manages risks in the course of the constant process of identification, evaluation and observation, by establishing risk limits and other internal control measures. The Bank is subject to credit risk, liquidity risk and market risk, which comprises risks associated with changes in interest rates, currency exchange rates, as well as securities prices. The Bank is also subject to operational risks.

Risk management structure

The Board of Directors carries general responsibility over risks identification and control. The Board of Directors is responsible for the general approach to risk management. The Management Board is responsible for the approval of the general risk management strategy and principles, certain policies on risk management, as well as for the effectiveness and quality of the internal control procedures over risks. The Management Board also sets general limitations on risk acceptance. The Assets and Liabilities Management Committee, Credit Committees, Finance and Planning Committee and Technical Committee set limits and restrictions for certain types of banking operations, financial instruments or operators, exercise control over prescribed risk levels and carry out activities aimed at minimizing risks impact on the Bank's activities. Within authority delegated by the Management Board, Credit Committees and Assets and Liabilities Management Committee make decisions on operations subject to risks.

Department on prudential reporting and risk management coordinates the process of risk management, evaluates total risk of the Bank on a regular basis, carries out integrated testing of risk levels at extreme points and prepares reports for the management of the Bank. Internal audit department assesses whether methodology and procedures on risk management are fully and effectively implemented.

As a part of risk management measures the Bank provides employees with warranties of authority which define authority levels that do not require approval of collective management bodies.

Systems of risk evaluation and communication

The Bank's risks are evaluated based on probabilistic quantitative methods establishing in monetary equivalent the maximum threshold of possible loss which will not be exceeded with a certain level of probability. The Bank also simulates the "stress scenarios" which will take place in case unlikely events occur.

Risk monitoring and control are mainly based on comparison of calculated indicators with the limits set by the Bank. The limits setting policy is based on the prudential ratios set by the National Bank. The main basis for limits setting is the maximum aggregate risk, which should not exceed the equity of the Bank.

The management bodies of the Bank make decisions in respect of risk management and also set limits on maximum risk for particular activities. The management also sets maximum risk levels at which the activity bearing the risk is suspended and steps aimed at risk minimization and mitigation are taken. The Assets and Liabilities Management Committee sets limits on certain active and passive operations, active operations with financial instruments, structural limits on operations with securities for divisions of the Bank including its branches. Credit Committees approve maximum exposures for borrowers and the level of interest rates on loans.

The Management Board distributes and approves maximum risk for various banking activities in accordance with strategic priorities and analysis of the existing trends and their possible future changes submitted by risk managers.

The relevant management body of the Bank distributes limits by branches for the most significant risks that are subject to centralized risk management to a smaller extent. The branches must adhere to the limits set and accepted principles of risk management. Operating control over compliance is performed by employees of operating departments. The internal audit department controls compliance with the limits in the course of audits, the Department on prudential reporting and risk management performs control procedures during preparation of reports on prudential ratios. External control is carried out by the Revision Commission of the Bank.

Information on all types of activities is examined and processed with the purpose of analysis, control and early risk identification. The information together with relevant commentary is submitted to the Board of Directors, Management Board, Assets and Liabilities Management Committee, Finance and Planning Committee and to the managers of involved departments. The report contains information on the levels of certain risk types, "value-at-risk" (VAR), liquidity indicators, and changes in risk level. The Management Board receives a detailed quarterly report on risks with the information necessary for risks evaluation and decision-making.

Various risk reports are prepared for all levels of the Bank and are communicated so that all divisions have access to the required and timely information.

Excessive risk concentration

Risk concentration occurs in case a number of counterparties perform similar activities with similar risk characteristics or activities take place in one geographical region, or parties have similar economic characteristics. As a result of changes in economic, political and other conditions risk concentration has similar impact on the ability of these parties to meet their contractual obligations. Risk concentration reflects relative sensitivity of the Bank's performance to the changes in conditions which have impact on particular industry or geographical region.

In order to avoid excessive risk concentration the Bank's policies and procedures comprise guidelines and limits aimed at maintenance of diversified portfolio.

Credit risk

Credit risk is the risk that the Bank will incur losses in case its clients or counterparties do not meet their contractual obligations. The Bank manages credit risk by setting maximum risk it is ready to accept for certain counterparties, geographical and industry risk concentration, as well as by monitoring compliance with the credit limits set.

Credit risk is managed in three directions: credit risk management over lending to corporate clients, credit risk management over retail operations, credit risk management over operations with financial institutions.

Levels of credit risk assumed are managed by the following procedures:

- segregation of duties between management bodies in decision-making process;
- limits setting for operations with the purpose of credit risk minimization;
- regular analysis of debtors’ financial position and their ability to meet credit obligations;
- requirement of collateral for credit operations in order to limit risk exposure;
- constant monitoring of the level and status of the risks taken and preparation of management reports for Credit Committees, the Management Board of the Bank and other parties concerned;
- evaluating and ensuring capital adequacy necessary for coverage of risks taken by the Bank in the course of business;
- regular internal control carried out by the department of internal audit over adherence to the policies regulating lending operations, risks assessment and management.

Credit risk on financial instruments accounted for on off-balance sheet accounts is determined as a possibility of losses as a result of the client’s inability to fulfil the terms of the agreement. In relation to credit risk associated with off-balance financial instruments the Bank potentially carries loss which equals to total amount of unused credit lines. However the probable loss amount is less than total amount of unused credit loans since in the majority of cases commitments on loans arise if the clients meet certain creditworthiness indicators. The Bank applies the same credit policy to contingent liabilities as it does to on-balance-sheet financial instruments, which is based on the procedures of approval of loans granted, setting of risk limits and constant monitoring.

During the year 2010 in the course of enhancement of the credit risk management the main policies on loans granting and monitoring were updated. The Bank implemented a new operating notification system based on events indicating high levels of risk. In 2010 a new methodology of industry limits setting was introduced as one of the stages of limit policy improvement. The list of credit risk indicators was extended by ratios, used in the world practice of the credit risk monitoring, and appropriate changes and amendments were made in the risk reporting forms.

The Bank carries out quarterly credit risk evaluation, which is based on the assessment of the probability of the events leading to risk and assessment of potential losses. Credit risk evaluation comprises quantitative and qualitative evaluation. The results of quantitative and qualitative evaluation are submitted to Credit Committees and are the basis for amendments of the credit policy.

Maximum credit risk exposure

For financial assets the maximum exposure to credit risk equals to a carrying value of those assets, net of allowance for impairment losses. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on, less provisions made for losses on these instruments.

The maximum amount of credit risk of the Bank may vary depending on individual risks of different assets and market risks.

The following table presents the maximum exposure to credit risk on financial assets and contingent liabilities.

	31 December 2010 Maximum exposure	31 December 2009 Maximum exposure
Correspondent accounts in the National Bank	133,266	25,245
Securities at fair value through profit or loss	131,533	3,187
Derivative financial instruments, assets	44,349	18,040
Due from banks and other financial institutions	161,454	350,931
Loans to customers	1,784,181	1,331,582
Investments available for sale	106,529	210,512
Other financial assets	20,413	5,996
Financial guarantees and similar commitments	33,443	17,343
Non-cancellable commitments on loans and unused credit lines	167,315	31,495
Letters of credit, not covered by cash	80,662	-

Financial assets are classified according to the current credit rating issued by international rating agencies.

The following table presents Bank's financial assets by counterparties' credit rating (for government bodies – by country sovereign credit ratings):

	AA	A	BBB	BB	Lower than BB-	Not rated	31 December 2010 Total
Due from the National Bank of the Republic of Belarus	-	-	-	-	133,266	-	133,266
Securities at fair value through profit or loss	72,169	163	2,961	256	59,364	-	134,913
Derivative financial instruments, assets	-	-	-	19	44,250	80	44,349
Due from banks and other financial institutions	7,513	7,190	207	5,938	53,515	87,091	161,454
Loans to customers	-	4,752	-	-	-	1,779,429	1,784,181
Investments available for sale	-	-	-	-	85,862	20,667	106,529
Other financial assets	105	-	-	-	349	19,959	20,413

	AA	A	BBB	BB	Lower than BB-	Not rated	31 December 2009 Total
Due from the National Bank of the Republic of Belarus	-	-	-	-	25,245	-	25,245
Securities at fair value through profit or loss	-	-	7,565	1,014	-	1,842	10,421
Derivative financial instruments, assets	-	-	-	18,034	6	-	18,040
Due from banks and other financial institutions	1,812	99,433	2	20,303	202,464	26,917	350,931
Loans to customers	-	-	-	-	-	1,331,582	1,331,582
Investments available for sale	-	-	-	154,295	51,750	4,467	210,512
Other financial assets	-	-	-	-	-	5,996	5,996

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Belarus. The exposure to the credit risk is monitored on a regular basis to ensure the compliance of credit limits and credit worthiness according to the Bank's risk management policy.

The carrying value of impaired loans to customers is disclosed in Note 17. As at 31 December 2010 and 2009 other financial assets comprised impaired assets in the amount of BYR 1,724 million and BYR 684 million, respectively. As at 31 December 2010 and 2009 the Bank had no past due but not impaired financial assets.

Collateral

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 presented in Note 17.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement. For the years ended 31 December 2010 and 2009 the Bank received through repossession of collateral assets in the amount of BYR 11,273 million and BYR 14,747 million, respectively. The information on actions taken to sell the assets is presented in Note 19.

Geographical concentration

The Bank regularly controls the risk associated with changes in legislation of countries, where the Bank's counterparties reside, and assesses its impact on the activities of the Bank. This approach is aimed at minimization of possible losses from investment climate changes in the respective countries. The Assets and Liabilities Management Committee sets country limits that are applied mainly to banks registered in CIS and Baltic countries.

The geographical concentration of financial assets and liabilities is set out below:

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2010 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	208,831	-	-	-	208,831
Securities at fair value through profit or loss	59,364	3,380	72,169	-	134,913
Derivative financial instruments, assets	44,223	19	-	107	44,349
Due from banks	88,349	7,818	64,800	487	161,454
Loans to customers	1,779,429	-	4,752	-	1,784,181
Investments available for sale	106,480	-	49	-	106,529
Other financial assets	20,081	-	107	225	20,413
TOTAL FINANCIAL ASSETS	2,306,757	11,217	141,877	819	2,460,670
FINANCIAL LIABILITIES:					
Derivative financial instruments, liabilities	3,002	15	-	39	3,056
Loans from the National Bank of the Republic of Belarus	6,403	-	-	-	6,403
Due to banks and other financial institutions	3,135	147,347	323,552	73,555	547,589
Subordinated debt	-	15,000	-	-	15,000
Customer accounts	1,091,393	12,472	3,687	379	1,107,931
Debt securities issued	239,169	-	-	-	239,169
Other financial liabilities	16,199	12	265	-	16,476
TOTAL FINANCIAL LIABILITIES	1,359,301	174,846	327,504	73,973	1,935,624
NET POSITION	947,456	(163,629)	(185,627)	(73,154)	

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2009 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	76,239	-	-	-	76,239
Securities at fair value through profit or loss	-	10,421	-	-	10,421
Derivative financial instruments, assets	17,882	152	-	6	18,040
Due from banks	226,203	22,778	101,764	186	350,931
Loans to customers	1,331,257	37	286	2	1,331,582
Investments available for sale	210,097	362	53	-	210,512
Other financial assets	5,980	-	2	14	5,996
TOTAL FINANCIAL ASSETS	1,867,658	33,750	102,105	208	2,003,721
FINANCIAL LIABILITIES:					
Derivative financial instruments, liabilities	2,512	263	-	5	2,780
Loans from the National Bank of the Republic of Belarus	12,227	-	-	-	12,227
Due to banks and other financial institutions	138,771	113,928	181,424	3,056	437,179
Subordinated debt	-	14,315	-	-	14,315
Customer accounts	983,337	10,655	1,185	12,961	1,008,138
Debt securities issued	61,151	-	-	-	61,151
Other financial liabilities	5,989	-	53	-	6,042
TOTAL FINANCIAL LIABILITIES	1,203,987	139,161	182,662	16,022	1,541,832
NET POSITION	663,671	(105,411)	(80,557)	(15,814)	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet the Bank's obligations when they fall due in the ordinary course of business or unforeseen events.

A system of managing liquidity risks arranged in the Bank helps evaluate probability, causes and effects of changes in time structure of assets and liabilities, as well as take measures aimed at loss minimization and liquidity maintenance in the circumstances indicated. The Bank has developed and approved the authorization process and appointed officers responsible for certain stages of risk management.

The management manages assets and liabilities by taking account of liquidity, risk of simultaneous withdrawal and daily monitoring of future cash flows. The process comprises evaluation of expected cash flows, availability of high-quality collateral which may be used for obtaining additional funds if required. Short-term liquidity is managed by the Treasury of the Bank which carries out operations on the money market for the purpose of current liquidity maintenance and future cash flows optimization.

The Bank handles a diversified assets portfolio that can be realized in case of unforeseen termination of cash inflow. The Bank also concluded credit lines agreements which may be used to meet requirements in funds. Besides, in accordance with the legislation, the Bank has an obligatory reserve deposit with the National Bank. The amount of the deposit depends on the level of deposits attracted from clients.

Following tables present the analysis of liquidity and interest rate risks which discloses term to maturity of non-derivative financial liabilities, calculated for non-discounted cash flows on financial liabilities (principal and interest) at the earliest date when the Bank will be liable to redeem the liability. The amounts disclosed in these tables do not reconcile to the amounts recorded in the balance sheet as the presentation below includes maturity analysis of financial liabilities, that comprise total remaining contractual payments (including interest payments), which are not recognized in the balance sheet under the effective interest rate method.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2010 Total
FINANCIAL LIABILITIES:						
Loans from the National Bank of the Republic of Belarus	-	-	5,999	534	-	6,533
Due to banks and other financial institutions	115,735	9,561	138,043	242,645	20,085	526,069
Subordinated loan	-	-	1,059	15,254	-	16,313
Customer accounts	380,794	84,666	232,702	186,241	153,159	1,037,562
Debt securities issued	13,932	115,980	115,217	-	-	245,129
Total interest bearing financial liabilities	510,461	210,207	493,020	444,674	173,244	1,831,606
Due to banks and other financial institutions	62,858	-	-	-	-	62,858
Customer accounts	181,133	-	-	345	-	181,478
Other financial liabilities	15,604	588	284	-	-	16,476
Financial guarantees and similar commitments	33,977	-	-	-	-	33,977
Letters of credit, not covered by cash	-	-	81,313	-	-	81,313
Commitments on loans and unused credit lines	263,504	-	-	-	-	263,504
TOTAL FINANCIAL LIABILITIES	1,067,537	210,795	574,617	445,019	173,244	2,471,212

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2009 Total
FINANCIAL LIABILITIES:						
Loans from the National Bank of the Republic of Belarus	-	-	9,707	2,898	-	12,605
Due to banks and other financial institutions	135,152	37,695	97,760	191,685	-	462,292
Subordinated loan	-	-	1,156	15,744	-	16,900
Customer accounts	297,929	93,486	260,473	135,618	97,516	885,022
Debt securities issued	484	998	4,328	66,758	-	72,568
Total interest bearing financial liabilities	433,565	132,179	373,424	412,703	97,516	1,449,387
Due to banks and other financial institutions	10,673	-	-	-	-	10,673
Customer accounts	237,025	-	267	384	-	237,676
Debt securities issued	1	-	-	-	-	1
Other financial liabilities	6,042	-	-	-	-	6,042
Financial guarantees and similar commitments	17,602	-	-	-	-	17,602
Letters of credit, not covered by cash	328	-	-	-	-	328
Commitments on loans and unused credit lines	139,631	-	-	-	-	139,631
TOTAL FINANCIAL LIABILITIES	844,867	132,179	373,691	413,087	97,516	1,861,340

The following table presents an analysis of liquidity risk based on carrying values of financial assets and liabilities. Management estimates expected maturity of financial assets and liabilities based on historical data analysis, existence of active market and other factors affecting the period of assets and liabilities realization/settlement. Estimated maturity of the following categories of assets and liabilities differs from their contractual maturity.

Securities at fair value through profit or loss – the management estimates time of realization for assets carried at fair value in the balance sheet as at 31 December 2010 and 2009 as up to 1 month due to existence of an active market where securities can be sold in short terms. Contractual maturity dates for debt securities at fair value included in the Bank's portfolio as at 31 December 2010 ranged from 30 June 2012 to 3 August 2015, and for debt securities at fair value included in the Bank's portfolio as at 31 December 2009 – up to 28 April 2034.

Investments available for sale – the Bank's liquidity risk management comprises evaluation of investments available for sale realization terms based on the analysis of actual securities' turnover, existence of active market and possibility of sale of these investments. As at 31 December 2009 the expected maturity of securities available for sale issued by the Ministry of Finance of the Republic of Belarus in the amount of BYR 154,293 million was estimated by management as up to 1 month. Contractual maturity was from 22 March 2010 to 26 April 2010. Investments available for sale as at 31 December 2010 are presented in accordance with their contractual maturities.

Customer accounts – the Bank's liquidity risk management includes estimation of core deposits, i.e. funds associated with stable customer deposits relationship, this amount is estimated using statistical methods based on historical data of fluctuations on customer accounts balances during 90 days before the reporting date. As at 31 December 2010 and 2009 core deposits amounted to BYR 356,523 million and BYR 159,639 million, respectively. Based on going concern assumption the effective maturity of core deposits is considered to be undefined while contractual maturity is on demand.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2010 Total
FINANCIAL ASSETS:								
Securities at fair value through profit or loss	131,533	-	-	-	-	-	-	131,533
Due from banks	42,816	31,030	50,325	-	-	-	-	124,171
Loans to customers	60,899	179,665	695,937	722,088	104,042	21,550	-	1,784,181
Investments available for sale	922	11,036	51,229	43,272	-	-	-	106,459
Total interest bearing assets	236,170	221,731	797,491	765,360	104,042	21,550	-	2,146,344
Cash and balances with the National Bank of the Republic of Belarus	208,831	-	-	-	-	-	-	208,831
Securities at fair value through profit or loss	3,380	-	-	-				3,380
Derivative financial instruments, assets	127	-	-	44,222	-	-	-	44,349
Due from banks	37,283	-	-	-	-	-	-	37,283
Investments available for sale	-	-	-	-	-	-	70	70
Other financial assets	8,018	217	7,017	4,157	-	-	1,004	20,413
TOTAL FINANCIAL ASSETS	493,809	221,948	804,508	813,739	104,042	21,550	1,074	2,460,670
FINANCIAL LIABILITIES:								
Loans from the National Bank of the Republic of Belarus	-	-	5,887	516	-	-	-	6,403
Due to banks and other financial institutions	114,912	8,235	125,377	218,132	18,075	-	-	484,731
Subordinated debt	-	-	-	15,000	-	-	-	15,000
Customer accounts	151,078	78,448	212,692	129,497	129,515	-	225,223	926,453
Debt securities issued	12,871	114,177	112,121	-	-	-	-	239,169
Total interest bearing liabilities	278,861	200,860	456,077	363,145	147,590	-	225,223	1,671,756
Derivative financial instruments, liabilities	54	-	1,853	1,149	-	-	-	3,056
Due to banks and other financial institutions	62,858	-	-	-	-	-	-	62,858
Customer accounts	49,833	-	-	345	-	-	131,300	181,478
Other financial liabilities	15,604	588	284	-	-	-	-	16,476
TOTAL FINANCIAL LIABILITIES	407,210	201,448	458,214	364,639	147,590	-	356,523	1,935,624
Liquidity gap	86,599	20,500	346,294	449,100	(43,548)			
Interest sensitivity gap	(42,691)	20,871	341,414	402,215	(43,548)			
Cumulative interest sensitivity gap	(42,691)	(21,820)	319,594	721,809	678,261			
Cumulative interest sensitivity gap as a percentage of total financial assets	(1.7%)	(0.9%)	13.0%	29.3%	27.6%			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2009 Total
FINANCIAL ASSETS:								
Securities at fair value through profit or loss	3,187	-	-	-	-	-	-	3,187
Due from banks	267,763	67	371	15,418	-	-	-	283,619
Loans to customers	133,864	126,478	498,853	517,310	44,987	10,090	-	1,331,582
Investments available for sale	188,151	21,929	-	-	-	-	-	210,080
Total interest bearing assets	592,965	148,474	499,224	532,728	44,987	10,090	-	1,828,468
Cash and balances with the National Bank of the Republic of Belarus	76,239	-	-	-	-	-	-	76,239
Securities at fair value through profit or loss	7,234							7,234
Derivative financial instruments, assets	158	-	-	8,122	9,760	-	-	18,040
Due from banks	67,312	-	-	-	-	-	-	67,312
Investments available for sale	-	-	-	-	-	-	432	432
Other financial assets	486	141	4,572	656	-	-	141	5,996
TOTAL FINANCIAL ASSETS	744,394	148,615	503,796	541,506	54,747	10,090	573	2,003,721
FINANCIAL LIABILITIES::								
Loans from the National Bank of the Republic of Belarus	-	-	9,407	2,820	-	-	-	12,227
Due to banks and other financial institutions	134,566	35,829	86,583	169,528	-	-	-	426,506
Subordinated debt	-	-	-	14,315	-	-	-	14,315
Customer accounts	231,380	85,012	236,403	81,396	75,497	-	60,774	770,462
Debt securities issued	27	16	-	61,107	-	-	-	61,150
Total interest bearing liabilities	365,973	120,857	332,393	329,166	75,497	-	60,774	1,284,660
Derivative financial instruments, liabilities	269	2,511	-	-	-	-	-	2,780
Due to banks and other financial institutions	10,673	-	-	-	-	-	-	10,673
Customer accounts	138,160	-	267	384	-	-	98,865	237,676
Debt securities issued	1	-	-	-	-	-	-	1
Other financial liabilities	6,042	-	-	-	-	-	-	6,042
TOTAL FINANCIAL LIABILITIES	521,118	123,368	332,660	329,550	75,497	-	159,639	1,541,832
Liquidity gap	223,276	25,247	171,136	211,956	(20,750)			
Interest sensitivity gap	226,992	27,617	166,831	203,562	(30,510)			
Cumulative interest sensitivity gap	226,992	254,609	421,440	625,002	594,492			
Cumulative interest sensitivity gap as a percentage of total financial assets	11.3%	12.7%	21.0%	31.2%	29.7%			

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its claims and obligations which are subject to general and specific market fluctuations.

The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed.

The Bank is exposed to interest rate risk as the Bank borrows funds at both fixed and floating rates. The risk is managed by the Bank maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk arises due to cumulative misbalance of terms and rate types of the interest sensitive assets and liabilities.

The interest rate risk management is performed by a collective body – Assets and Liabilities Management Committee. The Committee sets absolute limits for Bank’s operating departments, management can operate within, and ensures control over the risk of interest rate margin change by monitoring the gap between interest bearing assets and liabilities. The Bank monitors its current financial performance on continuing basis, estimates interest rate sensitivity and its effect on profit and equity.

The effect of interest rate changes on Bank’s comprehensive income is evaluated based on balance amounts of assets and liabilities with variable interest rates, as well as on amounts of instruments carried at fair value with fixed interest rate as at reporting date. Additionally the calculation includes the effect of reinvestment of fixed-rate instruments at new market rates as they mature. The estimation follows from the assumption that the Bank’s portfolio structure does not change and is based on “the reasonably possible changes in risk variables”. The level of these changes is determined by the risk-management and is reported to the key management personnel. The following table presents an interest rate sensitivity analysis on the Bank’s comprehensive income at the year horizon. The analysis was based on the parallel shift of the yield curve including all assets and liabilities, the shift was estimated to be equal to 3 percentage points for all financial instruments disregarding of their nominal currency. In addition it was assumed that the change of all types of the interest rates took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

	31 December 2010		31 December 2009	
	Interest rate +3%	**Interest rate -3%**	**Interest rate +3%**	**Interest rate -3%**
Impact on profit before taxes:				
Financial assets				
Derivative financial instruments, assets	-	-	(1,851)	1,851
Securities at fair value through profit or loss	(8,457)	8,457	(279)	279
Due from banks	3,349	(3,349)	7,811	(7,811)
Loans to customers	24,957	(24,957)	20,252	(20,252)
Investments available for sale	2,638	(2,638)	5,510	(5,510)
Financial liabilities				
Loans from the National Bank of the Republic of Belarus	(120)	120	(229)	229
Due to banks and other financial institutions, subordinated debt	(9,956)	9,956	(8,762)	8,762
Customer accounts	(15,919)	15,919	(14,796)	14,796
Debt securities issued	(2,045)	2,045	-	-
Net impact on profit before taxes	(5,553)	5,553	7,656	(7,656)
Impact on other comprehensive income:				
Investments available for sale	(65)	65	(1,255)	1,255
Net impact on comprehensive income	(5,618)	5,618	6,401	(6,401)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The following instruments are implemented by the Bank to minimize currency risk: internal control procedures, limits on open currency position. Those limits match the minimum requirements of the National Bank.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	BYR	USD 1USD= BYR 3,000	EUR 1EUR= BYR 3,972.60	RUB 1RUB= BYR 98.44	Other currencies	31 December 2010 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	180,647	14,244	8,944	4,922	74	208,831
Securities at fair value through profit or loss	-	131,533	-	3,380	-	134,913
Derivative financial instruments, assets	44,349	-	-	-	-	44,349
Due from banks	35,632	92,096	25,932	7,656	138	161,454
Loans to customers	1,073,823	473,481	227,047	9,830	-	1,784,181
Investments available for sale	106,529	-	-	-	-	106,529
Other financial assets	16,953	2,042	1,402	16	-	20,413
TOTAL FINANCIAL ASSETS	1,457,933	713,396	263,325	25,804	212	2,460,670
FINANCIAL LIABILITIES:						
Derivative financial instruments, liabilities	3,056	-	-	-	-	3,056
Loans from the National Bank of the Republic of Belarus	-	6,403	-	-	-	6,403
Due to banks and other financial institutions	58,055	414,464	75,048	22	-	547,589
Subordinated debt	-	15,000	-	-	-	15,000
Customer accounts	348,329	471,730	254,655	33,214	3	1,107,931
Debt securities issued	39,495	114,130	85,544	-	-	239,169
Other financial liabilities	12,743	1,016	571	2,129	17	16,476
TOTAL FINANCIAL LIABILITIES	461,678	1,022,743	415,818	35,365	20	1,935,624
CURRENCY POSITION	996,255	(309,347)	(152,493)	(9,561)	192	

Derivative financial instruments with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments:

	BYR	USD 1USD= BYR 3,000	EUR 1EUR= BYR 3,972.60	RUB 1RUB= BYR 98.44	Other currencies	31 December 2010 Total
Claims on derivative financial instruments	5,463	513,375	157,934	21,019	9,299	707,090
Obligations on derivative financial instruments	(645,791)	(85,352)	(1,986)	-	(9,299)	(742,428)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT TRANSACTIONS POSITION	(640,328)	428,023	155,948	21,019	-	
TOTAL CURRENCY POSITION	355,927	118,676	3,455	11,458	192	

	BYR	USD 1USD= BYR 2,863	EUR 1EUR= BYR 4,106.11	RUB 1RUB= BYR 94.66	Other currencies	31 December 2009 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	51,910	12,493	7,988	3,757	91	76,239
Securities at fair value through profit or loss	-	3,187	-	7,234	-	10,421
Derivative financial instruments, assets	17,888	152	-	-	-	18,040
Due from banks	183,051	120,250	39,894	7,631	105	350,931
Loans to customers	566,989	670,570	90,598	3,425	-	1,331,582
Investments available for sale	184,071	26,079	-	362	-	210,512
Other financial assets	5,930	32	25	9	-	5,996
TOTAL FINANCIAL ASSETS	1,009,839	832,763	138,505	22,418	196	2,003,721
FINANCIAL LIABILITIES:						
Derivative financial instruments, liabilities	2,703	77	-	-	-	2,780
Loans from the National Bank of the Republic of Belarus	-	12,227	-	-	-	12,227
Due to banks and other financial institutions	110,480	270,478	50,934	5,287	-	437,179
Subordinated debt	-	14,315	-	-	-	14,315
Customer accounts	389,472	369,033	230,185	19,413	35	1,008,138
Debt securities issued	1	46,390	14,760	-	-	61,151
Other financial liabilities	5,904	116	20	2	-	6,042
TOTAL FINANCIAL LIABILITIES	508,560	712,636	295,899	24,702	35	1,541,832
CURRENCY POSITION	501,279	120,127	(157,394)	(2,284)	161	

Derivative financial instruments with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments:

	BYR	USD 1USD= BYR 2,863	EUR 1EUR= BYR 4,106.11	RUB 1RUB= BYR 94.66	Other currencies	31 December 2009 Total
Claims on derivative financial instruments	-	230,089	149,873	11,460	-	391,422
Obligations on derivative financial instruments	(233,268)	(161,493)	(8,212)	(7,169)	-	(410,142)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT TRANSACTIONS POSITION	(233,268)	68,596	141,661	4,291	-	
TOTAL CURRENCY POSITION	268,011	188,723	(15,733)	2,007	161	

Currency risk sensitivity

The following tables detail the Bank's sensitivity to an increase by 20% and decrease by 10% of USD, EUR and RUB against BYR as at 31 December 2010 and increase by 30% and decrease by 10% of USD, EUR and RUB against as at 31 December 2009. The mentioned currency exchange rates changes represent management's assessment of the possible change in foreign currency exchange rates, which is used when reporting foreign currency risk internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for an anticipated value change in foreign currency rates.

	31 December 2010		31 December 2009	
	BYR/USD +20%	**BYR/USD -10%**	**BYR/USD +30%**	**BYR/USD -10%**
Impact on profit before income taxes	23,735	(11,868)	56,617	(18,872)
Impact on comprehensive income	23,735	(11,868)	56,617	(18,872)

	31 December 2010		31 December 2009	
	BYR/EUR +20%	**BYR/EUR -10%**	**BYR/EUR +30%**	**BYR/EUR -10%**
Impact on profit before income taxes	691	(346)	(4,720)	1,573
Impact on comprehensive income	691	(346)	(4,720)	1,573

	31 December 2010		31 December 2009	
	BYR/RUB +20%	**BYR/RUB -10%**	**BYR/RUB +30%**	**BYR/RUB -10%**
Impact on profit before income taxes	2,292	(1,146)	602	(201)
Impact on comprehensive income	2,292	(1,146)	602	(201)

Limitations of sensitivity analysis

The above interest rate risk and currency risk sensitivity analyses demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risk of financial instruments held at the Bank's portfolio which are subject to general and specific market fluctuations, as well as specific changes in financial position of certain issuers.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate stop-loss limits.

In the course of quantitative methods of risk assessment enhancement the Bank implemented the Value-at-Risk model for equity instruments. The assessment results are regularly reported to the management and are used for management decisions. As at 31 December 2010 with a probability of 95% the amount of possible daily losses on equity instruments portfolio will not exceed BYR 41.5 million.

At the level of the case analysis (stress-testing) the Bank applies a dual approach to the risk assessment, which comprises a parallel use of simplified approaches, that allow to aggregate stress assessments of all types of risk , as well as advanced methods, which allow in detail assess the impact of market factors on Bank's activity. In accordance with the internal methodology of stress-testing the possible shock losses on equity instruments as at 31 December 2010 amount to BYR 2,309 million. The Bank used for the scenario the maximal negative stock index change of Moscow interbank currency and stock exchange for 10 days in succession (42.3%), which was observed in the period starting from 1998.

The table below represents the results of the analysis of the sensitivity of the Bank's profit before income taxes and equity for the year to changes in prices of securities on a simplified scenario of 3% symmetrical increase or decrease in all securities prices based on the amount of investments in securities at the reporting date:

	31 December 2010		**31 December 2009**	
	3% increase in securities price	**3% decrease in securities price**	**3% increase in securities price**	**3% decrease in securities price**
Impact on profit before income taxes	4,047	(4,047)	847	(847)
Impact on comprehensive income	7,243	(7,243)	7,162	(7,162)

34. OPERATING ENVIRONMENT AND THE INFLUENCE OF THE WORLD FINANCIAL CRISIS

Operating Environment – Emerging markets such as the Republic of Belarus are subject to different risks than more developed markets, including economic, political, social, legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Republic of Belarus and the economy in general.

Laws and regulations affecting businesses in the Republic of Belarus continue to change rapidly. Tax, currency and customs legislation within country are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Republic of Belarus. The future economic direction of the Republic of Belarus is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial turmoil that has negatively affected the Republic of Belarus' financial and capital markets in 2008 and 2009 has receded and the country's economy returned to growth in 2010. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Belarusian economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

The Republic of Belarus is facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2010 and 2009 was 7.8% and 13%, respectively).

35. SUBSEQUENT EVENTS

In March 2011 the National Bank made a decision to increase the refinancing rate from 10.5% to 12% due to growing inflation rate during the first two months of 2011. Also, starting from March 2011 to reduce demand on foreign currency the government imposed restrictions as to foreign currency loans usage by Belarusian entities for the purpose of imports financing.

Besides, in March 2011 international rating agency Standard & Poor's Rating Services downgraded foreign currency long-term credit rating of the Republic of Belarus from B+ to B. The credit rating of the Republic of Belarus on its national currency has been downgraded from BB to B+. The outlook on the long-term ratings is "Negative".

Rating agency Fitch Ratings has revised from ”Stable“ to ”Negative“ the outlook on long-term ratings of default of issuer for seven Belarusian banks, including Belgazprombank, retaining the rating itself at "B" level. The "Negative" outlook for the ratings reflects the potential for further weakening of the financial position of the Republic of Belarus, what could affect the ability of the state to provide support to banks, as well as could lead to increase of the country's transfer and conversion risks, and therefore reduce the ability of certain banks to receive support of their parent companies for debt servicing.