OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

Consolidated Financial Statements
For the Year Ended 31 December 2010

CONTENT

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010	1
INDEPENDENT AUDITORS' REPORT	2-3
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010:	
Consolidated Income Statement	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8-9
Notes to the Consolidated Financial Statements	10-73

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

STATEMENT OF MANAGEMENT'S RESPONSOBILITIES FOR THE PREPERATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Belagroprombank" (the "Bank") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly in all material respects the financial position of the Group as of 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 consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information in consolidated financial statements, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group'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 Group;
- maintaining proper accounting records that disclose, with reasonable accuracy, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of the Republic of Belarus;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2010 were authorized for issue on 15 April 2011 and signed on behalf of the management of the Bank by Acting Chairman of the Management Board and Chief Accountant of the Bank.

On behalf of the management:

Podkovyrov V.I.	Shapovalova M.A.
Acting Chairman of the Management Board	*Chief Accountant*

15 April 2011

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Independent Auditors' Report

To the Shareholders of OJSC "Belagroprombank"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Belagroprombank" ("the Bank") and its subsidiaries (together – "the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 4 to 73.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Irina Vereschagina
Partner
KPMG LLC
Minsk, Belarus
15 April 2011

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

CONSOLIDATED 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 (restated)
Interest income	5	2,708,767	2,310,580
Interest expense	5	(1,670,744)	(1,534,236)
Net interest income before allowance for impairment on interest bearing assets and effect of initial recognition		1,038,023	776,344
Net effect of initial recognition of financial instruments at fair value issued at non-market rates		12,029	108,951
Allowance for impairment for interest-bearing assets	6	(526,146)	(198,469)
NET INTEREST INCOME		523,906	686,826
Fee and commission income	8	309,591	248,022
Fee and commission expense	8	(36,189)	(22,312)
NET FEE AND COMMISSION INCOME		273,402	225,710
Net gain/(loss) on foreign exchange operations	7	139,711	(114,553)
Net (loss)/gain on derivative financial instruments		(46,679)	132,433
Net loss on investments available for sale		(6,687)	(379)
Other provisions	6	(18,502)	(3,843)
Other income	9	215,767	38,866
NET NON-INTEREST INCOME		557,012	278,234
OPERATING INCOME		1,080,918	965,060
Operating expenses	10	(599,109)	(413,034)
PROFIT BEFORE INCOME TAXES		481,809	552,026
Income tax expense	11	(65,496)	(137,277)
NET PROFIT FOR THE YEAR		416,313	414,749
Net profit attributable to:			
Shareholders of the Bank		416,877	417,447
Non-controlling interest		(564)	(2,698)

On behalf of the management:

Podkovyrov V.I.
Acting Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

15 April 2011

Notes on pages 10-73 form an integral part of these consolidated financial statements.

CONSOLIDATED 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 (restated)
NET PROFIT FOR THE YEAR	416,313	414,749
OTHER COMPREHENSIVE INCOME		
Change in fair value of securities available for sale	6,084	(11,133)
Transfer of impairment loss on securities available for sale to profit and loss	1,732	-
OTHER COMPREHENSIVE INCOME TOTAL	7,816	(11,133)
COMPREHENSIVE INCOME	424,129	403,616
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Shareholders of the Bank	424,693	406,314
Non-controlling interest	(564)	(2,698)

On behalf of the management:

Podkovyrov V.I.
Acting Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

15 April 2011

Notes on pages 10-73 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
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	12	2,510,091	403,497
Due from banks	13	351,921	81,780
Precious metals		2,642	2,466
Derivative financial instruments	14	8,663	19,926
Loans to customers	15	22,829,001	17,489,738
Investments in securities available for sale	16	1,573,027	516,873
Property, equipment and intangible assets	17	680,489	479,121
Current income tax assets		11,243	9,046
Deferred income tax assets	11	15,017	25,757
Other assets	18	328,765	236,903
TOTAL ASSETS		28,310,859	19,265,107
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to the National Bank of the Republic of Belarus	19	5,032,064	2,554,477
Due to banks	20	4,203,318	3,655,544
Derivative financial instruments	14	5	326
Customer accounts	21	10,368,005	8,129,407
Debt securities issued	22	2,196,405	173,358
Current income tax liabilities		9,023	11,237
Deferred income tax liabilities	11	107,296	72,594
Commitments to provide loans at below market rates	15	96,575	5,157
Other liabilities	23	153,455	99,515
Total liabilities		22,166,146	14,701,615
EQUITY:			
Share capital	24	5,563,544	4,438,544
Treasury shares		(44)	(35)
Fair value reserve for investments available for sale		(3,317)	(11,133)
Retained earnings		579,872	138,549
Total equity attributable to shareholders of the Bank		6,140,055	4,565,925
Non-controlling interest		4,658	(2,433)
Total equity		6,144,713	4,563,492
TOTAL LIABILITIES AND EQUITY		28,310,859	19,265,107

On behalf of the management:

Podkovyrov V.I.
Acting Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

15 April 2011

Notes on pages 10-73 form an integral part of these consolidated.

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

	Notes	Share capital	Treasury shares	Fair value reserve for investments available for sale	(Accumulated deficit)/ retained earnings	Total equity attributable to shareholders of the Bank	Non-controlling interest	Total equity
31 December 2008		4,388,544	(37)	-	(272,311)	4,116,196	-	4,116,196
Transactions with equity owners								
Share capital increase	24	50,000	-	-	-	50,000	-	50,000
Sale of treasury shares	24	-	2	-	-	2	-	2
Dividends declared and paid for 2008	24	-	-	-	(6,587)	(6,587)	(55)	(6,642)
Changes in ownership interest in subsidiaries that do not result in loss of control								
Contribution from non-controlling shareholders upon origination of new subsidiary		-	-	-	-	-	20	20
Contribution to share capital of subsidiary by non-controlling shareholders		-	-	-	-	-	300	300
Comprehensive income (restated)		-	-	(11,133)	417,447	406,314	(2,698)	403,616
31 December 2009		4,438,544	(35)	(11,133)	138,549	4,565,925	(2,433)	4,563,492
Transactions with equity owners								
Share capital increase	24	1,125,000	-	-	-	1,125,000	-	1,125,000
Transfer of treasury shares from subsidiaries	24	-	(9)	-	-	(9)	-	(9)
Dividends declared and paid for 2009	24	-	-	-	(8,541)	(8,541)	(74)	(8,615)
Transfer of subsidiaries from state to the Bank, including changes in ownership structure of subsidiaries	24	-	-	-	32,987	32,987	7,729	40,716
Comprehensive income		-	-	7,816	416,877	424,693	(564)	424,129
31 December 2010		5,563,544	(44)	(3,317)	579,872	6,140,055	4,658	6,144,713

On behalf of the management:

Podkovyrov V.I.
Acting Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

15 April 2011

Notes on pages 10-73 form an integral part of these consolidated.

CONSOLIDATED 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
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		481,809	552,026
Adjustments for:			
Increase in impairment losses on interest bearing assets		526,146	198,469
Change in other provisions		18,502	3,843
Fair value gain on initial recognition of financial instruments at fair value		(12,029)	(108,951)
Amortization of discount on financial instruments with non-market terms		(16,799)	(27,128)
Depreciation of property and equipment and intangible assets amortization		44,240	26,381
Loss/(profit) from disposal of property and equipment and intangible assets		1,032	(987)
Loss on investments available for sale		6,687	379
Write-down of inventory to net realizable value		10,694	1,014
Change in commission accruals, net		(2,147)	(3,168)
Change in fair value of derivative financial instruments, net		10,942	9,667
Translation differences, net		(24,593)	198,949
Change in interest accruals, net		(2,227)	(48,302)
Cash flows from operating activities before changes in operating assets and liabilities		1,042,257	802,192
Change in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Due from the National Bank of the Republic of Belarus		(1,587,670)	69,919
Due from banks		20,874	71,528
Precious metals		(176)	(247)
Loans to customers		(7,058,826)	(4,858,080)
Other assets		(104,205)	(58,875)
Increase in operating liabilities:			
Due to the National Bank of the Republic of Belarus		2,990,000	1,541,731
Due to banks		568,113	1,438,490
Customer accounts		3,283,129	212,553
Other liabilities		35,058	19,769
Cash outflow from operating activities before taxation		(811,446)	(761,020)
Income taxes paid		(24,465)	(89,136)
Net cash outflow from operating activities		(835,911)	(850,156)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(211,417)	(137,624)
Proceeds on sale of property, equipment and intangible assets		9,413	4,981
Purchase of investments available for sale		(3,366,669)	(1,220,867)
Proceeds on sale and redemption of investments available for sale		2,210,167	2,078,954
Net cash (outflow)/inflow from investing activities		(1,358,506)	725,444

(continued on next page)

(in millions of Belarusian Rubles)

(continued)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(8,615)	(6,642)
Share capital increase		1,125,000	50,000
Sale of treasury shares		-	2
Proceeds on issue /(repayment) of debt securities, net		2,266,951	(29,407)
Contribution from non- controlling shareholders		-	300
Contribution from non-controlling shareholders upon set up of subsidiary		-	20
Net cash inflow from financing activities		3,383,336	14,273
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,188,919	(110,439)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		882	25,970
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12	307,126	391,595
CASH AND CASH EQUIVALENTS, END OF YEAR	12	1,496,927	307,126

On behalf of the management:

Podkovyrov V.I.
Acting Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

15 April 2011

Notes on pages 10-73 form an integral part of these consolidated financial statements.

(in millions of Belarusian Rubles unless otherwise stated)

1. ORGANIZATION

Open Joint Stock Company "Belagroprombank" ("the Bank") was registered in the Republic of Belarus by the National Bank of the Republic of Belarus on 3 September 1991.

The address of the Bank's registered office is 3 Zhukova Avenue, Minsk, Republic of Belarus.

The Bank provides wide range of banking services to its clients, which are mainly Belarusian enterprises. The Bank's primary areas of operations include granting loans to the agricultural and other sectors, to individuals, processing customer accounts and customer payments, securities and currency operations. The Bank participates in the realization of various Government programs including financing of agricultural sector and subsidized construction of housing in rural areas.

The Bank has a special permit (license) for banking activities № 2 issued 22 July 2009 by the National Bank of the Republic of Belarus, which allows it to maintain current accounts and attract demand and time deposits from private and corporate customers, to place the attracted funds, to issue guarantees and carry out other banking operations as stipulated by the Banking Code of the Republic of Belarus. The Bank also has license for securities trading.

The Bank's organizational structure includes the head office and 73 (2009:88) branches: 6 regional offices, Minsk city directorate, 66 (2009:80) local branch offices throughout the Republic of Belarus and Representative office in the Italian Republic.

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

Shareholder	31 December 2010	31 December 2009
State Property Committee of the Republic of Belarus	76.11%	69.18%
RUE "Belgosstrakh"	12.99%	16.76%
RUE "Belarusian National Reinsurance Organization"	7.00%	9.02%
Regional Executive Committees	2.49%	3.22%
PUE "Beleximgarant"	1.00%	1.29%
Other	0.41%	0.53%
Total	100.00%	100.00%

The Bank is a parent company of a group (the "Group") which consists of the following enterprises consolidated in the financial statements:

Name	Country of registration and operation	The Bank's ownership interest, % 31 December 2010	31 December 2009	Type of operation
PUE "Ozeritskiy-Agro"	Republic of Belarus	100%	100%	Agriculture
OJSC "Agroleasing"	Republic of Belarus	66.7%	66.7%	Finance leases
PE "Agrobusinessconsult"	Republic of Belarus	100%	100%	Consulting services
OJSC "Turovschina"	Republic of Belarus	93.19%	99.9%	Agriculture

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated 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").

Basis of Measurement

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

These consolidated financial statements are presented in millions of Belarusian Rubles ("BYR"), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention except for the measurement of certain financial instruments at fair value and accounting for property and equipment, intangible assets and share capital acquired before 1 January 2006 and recognized according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

Under IAS 29 the economy of the Republic of Belarus was considered to be hyperinflationary during 2005 and prior years. From 1 January 2006, the economy of the Republic of Belarus was no longer considered to be hyperinflationary and the values of the Group's property and equipment, intangible assets and equity as stated in measuring units as of 31 December 2005 have formed the basis for the amounts carried forward to 1 January 2006.

The Group maintains its accounting records in accordance with the legislation of the Republic of Belarus. These consolidated financial statements have been prepared from the Belarusian statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain measurement adjustments and reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

The Bank's financial statements based on the Belarusian statutory accounting records are subject to approval by the shareholders of the Bank. The shareholders have the right to reject these financial statements and request they be amended and reissued.

These consolidated financial statements for the year ended 31 December 2010 were authorized for issue on 15 April 2011 and signed on behalf of the management by the Acting Chairman of the Management Board and the Chief Accountant.

Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the end of reporting period, and the reported amount of income and expenses during the period ended.

(in millions of Belarusian Rubles unless otherwise stated)

Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the current circumstances. Although those estimates are based on the most recent information available to the management on current actions and events, actual results may differ from these estimates under different assumptions or conditions.

At the reporting date key assumptions concerning the future and other key sources of estimation uncertainty, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include the following:

	Note	31 December 2010	31 December 2009
Allowance for impairment of loans to customers	15	826,414	425,553
Allowance for impairment of investments available for sale	16	2,738	-
Derivative financial instruments (assets)	14	8,663	19,926
Derivative financial instruments (liabilities)	14	5	326
Unrecognized deferred tax assets	11	14,248	2,935

Allowance for impairment

The Group regularly analyses its loans issued for impairment. The Group considers accounting estimates related to allowance for impairment of loans to be a key source of estimation uncertainty because (a) they are highly susceptible to change from period to period as the assumptions of potential losses relating to impaired loans are based on recent quality of loan portfolio, and (b) any significant difference between the Group's estimated losses and actual losses would have a material impact on its financial statements in future periods.

The Group 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 or macroeconomic data relating to similar borrowers or forecasting data relating to a borrower's business. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data and forecasts 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 Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

Approaches to identification and recording of an impairment on an individual and aggregate basis for financial assets are disclosed in Section 3, "Significant accounting policies" of these consolidated financial statements.

The specific counterparty component of the total allowances for impairment applies to loans evaluated individually for impairment and is based upon management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty’s financial position, solvency and the net realizable value of any underlying collateral.

The allowance for impairment of loans, which are assessed collectively for impairment, is based on available information, which evidences the decrease of the expected future cash flows on the loan group. The Group's assumptions about estimated losses are based on past performance, past customer behaviour, the credit quality of recently underwritten business and general economic conditions, which are not necessarily an indication of future losses. When assessing credit risk and allowances, the Group applies the same estimates and judgements to loan commitments as to loans.

The allowances for impairment of loans in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group 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.

Derivative financial instruments

Currency forward contracts included in derivatives do not have active market and are valued using interest rates parity model. The fair value of the derivatives is determined on the basis of the risk-free interest rates applicable to respective currencies and exchange rates effective in the Republic of Belarus. The calculation is based on the assumption that these factors are a reliable basis for determining the fair forward rate.

Deferred income tax assets

Deferred income taxes assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductable temporary differences can be utilized. Estimation of probability is based on management forecast of future taxable profit.

Determination of fair value for financial instruments

Key area of estimate uncertainties having the greatest effect on the amounts recognized in the consolidated financial statements includes also accounting at amortized cost adjusted for nominal interest rate of loans for housing construction granted under governmental programs, as such loans for housing construction do not have similar financial instruments in the market and due to their unique nature as well as the specifics of Government program loans and the borrowers' category and represent a separate market segment (Note 15); as well as determination of financial instruments' fair value (Note 27).

Functional and presentation currency

The functional currency of the Bank and each of the subsidiaries and the presentation currency of these consolidated financial statements is the currency of the Republic of Belarus - Belarusian Ruble.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and the entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant transactions, balances, income and expenses on transactions with the subsidiaries are eliminated on consolidation.

Business combinations are accounted using the acquisition method as at acquisition date. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition including the recognized amount of any non-controlling interest.

The Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Profit or loss of subsidiary is attributed to the Group and non-controlling interest even if this results in the non-controlling interests having a deficit balance. Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Bank.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in the consolidated statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Initial recognition

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. Financial assets of the Group are classified into one of the following categories on initial recognition:

a) Financial assets at fair value through profit or loss;

b) Investments held to maturity;

c) Loans and receivables;

d) Financial assets available for sale,

The accounting principles for subsequent measurement of financial instruments are disclosed in the respective accounting policies.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial assets and liabilities acquired principally for the purpose of sale / redemption in a short period, or form part of a portfolio of identified financial instruments that are managed together and the structure of which actually indicates the intention of making a profit in the short term, as well as financial assets and liabilities, which at initial recognition are classified by the Group as at fair value through profit or loss, or are derivative financial instruments, except when they are effective hedging instruments. Financial assets and liabilities at fair value through profit or loss are measured initially and subsequently at fair value. Fair value movements on financial assets and liabilities at fair value through profit or loss are recognized in the consolidated income statement for the period.

Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group intends and is able to hold them to maturity. Investments that the Group intends to hold for an indefinite period of time are not included in this category. Investments held to maturity are subsequently accounted for at amortized cost, using the effective interest method. Income and expenses are recognized in the consolidated profit and loss on impairment of investments, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable cash flows that do not have a quoted market price, except for assets that are classified in other categories of financial assets.

Loans with fixed maturities and receivables are initially recognized at fair value plus transaction costs directly attributable to the acquisition or creation of such financial assets.

The difference between the nominal amount of cash transferred and the fair value of loans granted at a rate below the market rate, is recognized in the period of origination as an adjustment on initial recognition. Discounting is performed using approximate market rates effective at the time of granting the loan, the adjustment is reflected in the consolidated profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value".

The fair value of commitments to extend credit facilities at rates below the market rates is calculated as the difference between the nominal amount of obligations and the discounted future cash flows from borrowers as at the intended date of facility release. Subsequently the difference, if any, between the fair value of credit commitments and adjustments on initial recognition is recognized in the consolidated profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value ".

Subsequently loans to customers are recorded at amortized cost using the effective interest rate method. Loans to customers are accounted for net of impairment losses, if any. Income and expenses on such assets are recognized in the consolidated statement of profit and loss on their disposal or impairment, as well as through the amortization process.

Financial assets available for sale

Securities available for sale represent investments in debt and equity securities, which are not classified in any of the other categories. Such securities are initially recognized at fair value. Subsequently securities are measured at fair value attributing the fair value gain or loss directly to other comprehensive income until the securities are sold and the accumulated profit / loss previously recognized in other comprehensive income is recognized in the consolidated profit and loss. Impairment losses, positive and negative exchange rate differences, as well as accrued interest income, calculated on the basis of the effective interest rate method are recognized in the consolidated profit and loss. If there is objective evidence of impairment of these securities, the cumulative loss previously recognized in other comprehensive income is transferred to the consolidated statement of profit and loss for the reporting period and under account "Allowances for impairment of securities available for sale”.

To determine the fair value of investments available for sale, the Group uses quoted market prices. Accrued income to be received is included in the market value of securities. In the absence of an active market for certain financial instruments the Group measures their fair value using appropriate valuation techniques. Valuation techniques include the use of data on market transactions between independent, knowledgeable and willing parties, the use of the current fair value of another instrument similar in nature, discounted cash flow analysis and other applicable methods. When there is a valuation technique commonly used by market participants for determining the price of the instrument and it has been demonstrated that such method provides a reliable estimate obtained in actual market transactions, the Group uses this method.

Unquoted equity investments are stated at cost less impairment losses (if any), when their fair value cannot be reliably identified.

Dividends received are included in other income in the consolidated statement of profit and loss.

Reclassification of financial assets

Financial asset classified as available for sale if it meets the definition of loans and receivables, may be reclassified to the category of loans and receivables, if the Group has the intention and ability to hold such asset for the foreseeable future or until maturity. Financial assets are reclassified at fair value at the date of reclassification. Gains and losses previously recognized in profit or loss are not reversed. The fair value of financial assets at the date of reclassification becomes its new initial or amortized cost, which is applicable.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for write-off, the Group does not offset the transferred asset and the associated liability.

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 ("National Bank") with original maturity within 90 days, loans and advances to banks in countries included in the Organization for Economic Cooperation and Development ("OECD") with original maturity within 90 days, which may be converted to cash within a short period of time, except for guarantee deposits and other restricted balances. For purposes of consolidated statement of cash flows, the minimum obligatory reserve deposit required by the National Bank is not included as a cash equivalent due to restrictions on its availability.

Precious metals

The Group performs transaction with precious metals for trading purposes. Precious metals are recognized and measured in these consolidated financial statements at the fair value, which is determined based on prices set monthly by the National Bank of the Republic of Belarus.

Due from National bank and banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Balances due from banks with fixed maturity are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks are carried net of allowance for impairment losses, if any.

The difference between the nominal amount of funds transferred and the fair value of allocation at a rate below the market rate, is recorded in the allocation period as an adjustment on initial recognition. Discounting is performed using approximate market rates effective at the time of funds (deposits) allocation, the adjustment is reflected in the consolidated profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value".

Repurchase and reverse repurchase agreements

The Group enters into sale and purchase back agreements ("REPOs") and purchase and sale back agreements ("reverse REPOs") in the normal course of its business. REPOs and reverse REPOs are utilized by the Group as an element of its treasury management and trading business.

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 consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse REPOs are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

Under standard terms for repurchase transactions in the Republic of Belarus, 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.

Derivative financial instruments

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments entered into by the Group include foreign currency forward and swap contracts. Derivative financial instruments that are entered into by the Group do not qualify for hedge accounting.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Derivatives fair values are determined using interest rate parity model. Most of the derivative financial instruments used by the Group are of short-term nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Gains and losses are recognized in the income statement for the period in which they arise, under account “Net profit/loss on derivative financial instruments”.

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and to sell all available collateral. Loans and advances may only be written off with the approval of the management of the Group.

Subsequent recoveries of amounts previously written off are recognized in other income.

Allowance for impairment losses

At each balance sheet date the Group assesses whether there is objective evidence of impairment of the financial asset or group of financial assets, including net investments in lease. Impairment losses are recognized when incurred as a result of one or more events ("loss events") that occurred after initial recognition of financial asset and that impact the amount or timing of the estimated future cash flows associated with financial asset or group of financial assets, which can be reliably evaluated.

The Group accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and collateral discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the impairment allowance account. The value of the asset should not exceed its amortized cost, which would have been, excluding impairment, as at the same reporting date. The value of recovery is recognized in the consolidated statement of profit and loss.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

For unquoted financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Impairment allowances are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or group evaluation of financial assets not being material individually. In the absence of objective evidence that a financial asset is impaired, the asset is allocated in a group of financial assets with similar credit risk characteristics for evaluation for impairment on an aggregate basis.

The change in the impairment is recognized in the consolidated income statement using the impairment allowance account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the end of reporting period, although it is probable that in certain periods the Group can incur losses greater than recorded impairment. With the likelihood of discrepancies between actual losses and their assessment, the methodologies and assumptions used to estimate the impairment of financial assets are reviewed regularly to reduce these disparities.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where the rights to receive cash flows from the asset have expired.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group 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 Group 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 in the statement of financial position. 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 Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

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

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

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently net investments in the lease are recognized in the statement of financial position net of allowance for possible impairment of their value.

The Group recognizes the finance income based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

Lease payments/income under operating leases are recognized as expenses/income on a straight-line basis over the lease term and included in operating expenses/income.

Property, equipment and intangible assets

Property, equipment and intangible assets, acquired after 1 January 2006 are carried at historical cost less accumulated depreciation and recognized impairment loss, if any. Property, equipment and intangible assets, acquired before 1 January 2006 are carried at historical cost restated for inflation less accumulated depreciation and recognized impairment loss, if any. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and intangible assets is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings	1 –2.5%
Computer equipment	10 –25%
Vehicles	10 –14%
Furniture, other equipment and intangible assets	5 –33%

Leasehold improvements are amortized over the shorter of the lease period and the life of the related leased asset. Expenses related to repairs and renewals are recognized in the consolidated income statement when incurred and are included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, equipment and intangible assets are reviewed at the end of each reporting period to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment is recognized in the respective period and is included in operating expenses.

After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value, if any, on a systematic basis over its remaining useful life.

Taxation

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

The current tax expense is based on taxable profit for the year and is computed in accordance with legislation. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at 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 income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The taxpayer has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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

Due to banks and customers

Balances due to banks and customers are initially recognized at fair value. Subsequently amounts due at fixed maturities are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

The difference between the amount of cash consideration received and the fair value of deposits from banks and customers received at a below market interest rate is recognized in the period the deposit is drawn as initial recognition adjustment. Discounting is performed using approximate market rates at inception and the adjustment is recognized in the consolidated income statement under account "Net effect of initial recognition of financial instruments at fair value".

Debt securities issued

Debt securities issued represent promissory notes and bonds issued by the Bank. They are accounted for according to the same principles used for loans to customer and due from banks.

Other provisions

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

Government grants

Government grants are recognized by the Group when there is reasonable assurance that:

- the Group will be able to fulfill the terms of grants provision;
- grants will be received.

The grant is recognized on the accrual basis. Confidence in obtaining the grant is supported by the decision, notice or similar document. If the grant notification is received prior to the date of actual receipt of funds, the amount is recognized as a receivable.

The Group recognizes government grants received for compensation of expenses as income of the Group over the period in which the group recognizes the related expenses. Grants related to assets are recognized in the consolidated statement of financial position as deferred income and recognized as income on a systematic basis over the useful life of the related asset.

Financial guarantees contracts issued and letters of credit

Financial guarantees contracts and letters of credit issued by the Group are credit guarantees that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument.

Financial guarantees contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the present value of any expected payment when a payment under the guarantee has become probable and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

Share capital

Contributions to share capital, made before 1 January 2006 are recognized at their cost restated for inflation. Contributions to share capital after 1 January 2006 are recognized at the amount of cash contributed. Non-cash contributions are included into the share capital at fair value of the contributed assets.

Treasury shares are recognized at cost.

Dividends are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the end of reporting period are treated as a subsequent event and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of Belarusian legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the pension fund. The Group does not have any pension arrangements separate from the State pension system of the Republic of Belarus.

Group also provides for the payment of various forms of financial aid to idle pensioners, former employees of the Bank. The Group establishes an allowance for these payments, based on the best estimates. Discounting of such reserves is made only if the effect of such discounting is material.

Interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate 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 payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Discounting is performed for a period of expected life of the financial instrument or, if applicable, for a shorter period.

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 income also includes income earned on investments in securities available for sale.

Fee income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. All other commissions are recognized when services are provided.

Other income

Other income is recognized in the consolidated statement of profit and loss upon completion of the corresponding transactions.

(in millions of Belarusian Rubles unless otherwise stated)

Foreign currency translation

The consolidated financial statements of the Group are presented in Belarusian Rubles - the currency of the primary economic environment in which the Bank and its subsidiaries operate (their functional currency). Monetary assets and liabilities denominated in currencies other than the Group's functional currency (foreign currencies) are translated into Belarusian Rubles at the exchange rate of the National Bank at the end of reporting period. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into Belarusian Rubles at the exchange rate of the National Bank at the date of acquisition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Rubles at the exchange rate of the National Bank at the date of fair value determination.

Rates of exchange

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

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

Segment analysis

Operating segment is a component of the Group, representing operations, including revenues and expenditures and for which there is financial information evaluated regularly by senior management personnel (one person or group of persons) responsible for making operational decisions in the allocation of resources and analysis of financial performance. Financial information should be presented on the same basis on which it is used by the Group in evaluating segment performance and deciding how to allocate resources to operating segments.

At each reporting date the Group examines the quantitative thresholds specified in IFRS 8 “Operating Segments”, at which it is necessary to allocate the operating segments and disclose corresponding information in the consolidated financial statements. In preparing financial statements for the year ended 31 December 2010, no quantitative threshold was reached, and as a result as at the reporting date the Group was presented as a single operating segment.

Adoption of new and revised International Financial Reporting Standards

In the current year the Group has adopted all new and revised Standards and Interpretations approved by IASB and IFRIC relevant to its operations and effective for reporting period ended on 31 December 2010.

Amendments to IFRS 2 Share-based Payment (effective for annual periods beginning on or after 1 January 2010) - The amendments to the Standard require that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets to recognise the goods or services received in its financial statements. This standard is not applicable to the consolidated financial statements as the Group does not have any share-based payments.

Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009) – The revised standard prescribes acquisition accounting for business combinations as before, but includes some other significant changes. All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, contingent consideration is recognized as liability and is further re-valued through statement of comprehensive income. On a transaction basis any non-controlling interest is measured either at fair value or as a share in the identifiable net assets of the acquired company. Transaction costs are expensed as incurred. These changes had no significant impact on the consolidated financial statements of the Group.

Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) - In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. These changes had no significant impact on the consolidated financial statements of the Group.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after 1 July 2009) - The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.

The amendments to IAS 39 are not relevant to the Group's consolidated financial statements as the Group does not apply hedge accounting.

IFRIC 17 *Distributions of Non-cash Assets to Owners (effective prospectively for annual periods beginning on or after 15 July 2009)* - The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in statement of comprehensive income.

This Interpretation will have no impact on the consolidated financial statements of the Group.

New standards and interpretations not yet effective

IAS (IFRS) 1 "First-time Adoption of International Financial Reporting Standards". In 2010 the IASB issued amendments to IAS (IFRS) 1. These amendments will not affect the consolidated financial statements of the Group since the Group applies IFRS not for the first time.

Amendments to IAS (IFRS) 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 July 2011, early adoption is permitted).

In October 2010 the IASB adopted amendments to IAS (IFRS) 7, requiring the disclosure of additional information on risks arising in relation to the transferred financial assets, as well as changes in accounting for transfers of financial assets. The above stated changes include the disclosure requirements by asset types on the nature, the book value, risks and benefits associated with financial assets transferred to another party, but remained in accounting records of the company. Disclosure allows the user to get an idea of the sum of all the obligations involved and the connection between financial assets and related liabilities. The Group has no plans on early adoption of this amendment.

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted) and Amendments to IFRS 9 "Financial Instruments" (issued in 2010) (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted) - This Standard replaces the guidance in IAS 39 "Financial Instruments: Recognition and Measurement" about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since it will be required to be retrospectively applied. However, the Group is not able to prepare an analysis of the impact this will have on the consolidated financial statements until the date of initial application.

The 2010 additions to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities.

It is expected that the additions to the Standard, when initially applied, will have a significant impact on the financial statements, since they will be required to be retrospectively applied. However, the Group is not able to prepare an analysis of the impact this will have on the consolidated financial statements until the date of initial application.

The Group is currently assessing the impact of this standard and has not yet determined the date for adoption.

Amendments to IFRS (IAS) 12 Income taxes - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012, earlier application is permitted).

The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

It is expected that amendments to the Standard will have no impact on these consolidated financial statements.

Revised IFRS (IAS) 24 "Related Party Disclosure" (effective for annual periods beginning on or after 1 January 2011).

In November 2009 the IASB issued a new edition of IFRS (IAS) 24.The amendment exempts government-related entities from the disclosure requirements in relation to related party transactions. The revised Standard also amends the definition of a related party and clarifies the definition of significant influence. The previous version of the standard required the companies controlled by, or under significant influence of the state, to disclose information on all transactions with other companies, also controlled by, or under significant influence of the state.

New edition of IFRS (IAS) 24 with the stated amendments should be applied retrospectively, and is mandatory for application to annual periods beginning on or after 1 January 2011. Early application is permitted.

The Group is currently analyzing the impact of this standard.

Amendments to IAS 32 "Financial Instruments: Disclosures and Presentation of Information" – Accounting of rights in foreign currency.
In order to further improve IFRS (IAS) 32 was issued the amendment "Classification of issues relating to rights", which applies to reporting periods beginning on 1 February 2010 or after that date with the right to early adoption. The amendment describes the accounting of issues concerning rights denominated in foreign currencies other than the functional currency of the issuer. With the release of this amendment such rights regardless of the currency in which the purchase price is denominated, should be recorded in equity and meet certain criteria. Previously, these financial instruments should have been accounted for as financial liabilities. This amendment should be applied retrospectively in accordance with IFRS (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors", covering periods beginning on 1 January 2011.

It is expected that amendments to the Standard will have no impact on these consolidated financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" – "Classification of Rights Issues"
In October 2009 the IASB issued amendments to IFRS (IAS) 32. These amendments are effective for annual periods beginning on or after 1 February 2010, early application is permitted. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Amendment to IFRS (IAS) 32 is mandatory for application for annual periods beginning on 1 January 2011.

It is expected that amendments to the Standard will have no impact on these consolidated financial statements.

Amendment to IFRIC 14– The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual period beginning on or after 1 January 2011) - The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

The amendments to IFRIC 14 are not relevant to the Group's consolidated financial statements as the Group does not have any defined benefit plans with minimum funding requirements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010)- The Interpretation clarifies the accounting for the company's own financial obligations at a time when they are revised and as a result of such review the entity should issue its own equity instruments in favor of the lender to repay the debt fully or partially. The company should measure issued equity instruments at fair value unless fair value of equity instruments issued cannot be reliably determined. If fair value cannot be reliably determined, the equity instruments should be measured at fair value of the liability settled. The date of initial recognition and of evaluation of issued equity instruments is the date of repayment of financial obligations.

In accordance with explanations of the Interpretations Committee it was determined that the issuance of equity instruments to repay financial obligation is paid compensation/remuneration in accordance with paragraph 41 of IFRS (IAS) 39, so the company should write off the financial obligation or part of it from the balance sheet at maturity in accordance with paragraph 39 IFRS (IAS) 39.

Financial result from such transaction, defined as the difference between the carrying value of financial liabilities and fair value of equity instruments issued, should be recognized in profit or loss for the period and is subject to disclosure in the financial statements: as individual items in the income statement or in the notes to the financial statements at the discretion of the company.

The Group did not issue equity to extinguish any financial liability. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.

None of these New Standards and Interpretations are expected to have a significant impact on the consolidated financial statements of the Group.

4. PRIOR PERIOD ADJUSTMENTS

In 2010 the Group reviewed the approach to recording in its financial statements the effect of initial recognition of financial assets/liabilities at fair value granted/received at interest rates below market rates.

The Group has previously considered deposits at non-market rates raised for government programs financing, loans granted at non-market rates to state enterprises and compensations from the Government received on loans at below market rates, and resources for which were attracted under market conditions as transactions with the state acting as the owner. The Group recognized the difference between the actual amount of loans granted/deposits obtained at rates below market rates and their fair value as an adjustment at initial recognition, the effect of which was recorded in the consolidated statement of changes in equity as "The distribution of capital to the Government" and "Contributions to capital from the Government". Under the revised approach such transactions are considered by the management of the Group as transactions with the state, acting as the State and not as owner. Accordingly, the effect of initial recognition of these operations is recorded in the consolidated income statement under account "Net effect of initial recognition of financial instruments at fair value".

The Group previously considered the compensation received on loans for housing construction in rural areas, which is, as a rule, the difference between the current refinancing rate of the National Bank plus 3% and the interest rate paid by the borrower, as the support received from the controlling shareholder. In the consolidated financial statements the compensation was recorded in the statement of changes in equity under account "Compensation, received from the Government of the Republic of Belarus relating to loans granted under governmental programs".

(in millions of Belarusian Rubles unless otherwise stated)

In accordance with the revised approach, based on the presence in each loan agreement of the Group's right to increase interest rate for the borrower in case of failure to obtain compensation, as well as on the reasonable judgment of the Management that the Group is an agent of the Government of the Republic of Belarus in implementation of programs of the nationwide significance, it will be more informative for user of financial statements to record compensation in the consolidated statement of profit and loss.

The approach was revised as the Group was confident that as a result the financial statements would give more reliable and accurate information about the impact of these operations on the Group's financial position and financial results of its operations. Comparable data were reviewed and the relevant amendments were made to the comparative figures.

In accordance with IFRS (IAS) 8 "Accounting policies, changes in accounting estimates and errors" such corrections were carried out retrospectively. Effect of adjustments on the main items of the consolidated financial statements is presented in the table below:

Financial Statements Caption	**Previous report**	**Reclassification**	**Current report**
Consolidated statement of profit and loss for the year, ended 31 December 2009:			
Net effect of initial recognition of financial instruments at fair value	-	108,951	108,951
Interest income	2,019,617	290,963	2,310,580
Net profit	14,835	399,914	414,749
Consolidated statement of comprehensive income for the year, ended 31 December 2009:			
Profit for the year	14,835	399,914	414,749
Comprehensive income	3,702	399,914	403,616
Consolidated statement of changes in equity for the year, ended 31 December 2009:			
Distribution of capital to the Government of the Republic of Belarus on loans, granted at interest rate below the market rate	(252,997)	252,997	-
Distribution of capital to the Government of the Republic of Belarus on loan obligations with interest rate below the market rate	(5,157)	5,157	-
Contributions to the capital from the Government of the Republic of Belarus, relating to financing at interest rate below the market rate	367,105	(367,105)	-
Compensation received from the Government of the Republic of Belarus relating to loans granted under government programs	290,963	(290,963)	-

Changes in the above stated approach did not impact retained earnings as at 1 January 2009 and cash flow.

(in millions of Belarusian Rubles unless otherwise stated)

5. NET INTEREST INCOME

Interest income on financial assets recorded at amortized cost comprises:

	Year ended 31 December 2010	Year ended 31 December 2009 (restated)
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	2,551,627	2,190,877
Interest on due from banks	56,587	25,600
Other interest income	10,268	4,076
Total interest income on financial assets recorded at amortized cost	2,618,482	2,220,553
Interest income on financial assets recorded at fair value comprises:		
Interest on investments available for sale	90,285	90,027
Total interest income	2,708,767	2,310,580
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	868,528	889,161
Interest on due to banks	666,158	584,467
Interest on REPO transactions	22,758	38,620
Interest on debt securities issued	113,282	21,988
Other interest expense	18	-
Total interest expense	1,670,744	1,534,236
Net interest income before allowance for impairment on interest bearing assets and effect of initial recognition	1,038,023	776,344

(in millions of Belarusian Rubles unless otherwise stated)

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Loans to customers	Investments available for sale	Total
31 December 2008	237,618	-	237,618
Write-off	(10,534)	-	(10,534)
Increase in impairment allowance	198,469	-	198,469
31 December 2009	425,553	-	425,553
Write-off	(122,547)	-	(122,547)
Increase in impairment allowance	523,408	2,738	526,146
31 December 2010	826,414	2,738	829,152

The movements in other provisions were as follows:

	Guarantees and other commitments
31 December 2008	14,274
Provision	3,843
31 December 2009	18,117
Provision	18,502
31 December 2010	36,619

Provisions for guarantees and other commitments are recorded in other liabilities.

7. NET GAIN/(LOSS) ON FOREIGN EXCHANGE OPERATIONS

Net gain/(loss) on foreign exchange operations comprises:

	Year ended 31 December 2010	Year ended 31 December 2009
Dealing, net	115,118	84,396
Translation differences, net	24,593	(198,949)
Total net gain/(loss) on foreign exchange operations	139,711	(114,553)

(in millions of Belarusian Rubles unless otherwise stated)

8. 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:		
Commission for transactions on customer accounts and other customer service fees	283,085	233,742
Commission on foreign exchange transactions	11,480	10,498
Commission on transactions with banks	9,568	-
Commissions on transactions with securities	507	458
Other fee and commission income	4,951	3,324
Total fee and commission income	309,591	248,022
Fee and commission expense:		
Commission on transactions with plastic cards	15,843	7,918
Commission on documentary transactions	12,107	8,912
Commission on cash collection	2,664	1,784
Commission on foreign exchange transactions	1,351	885
Commission on transactions with banks	554	740
Commission on transactions with securities	595	655
Other fee and commission expense	3,075	1,418
Total fee and commission expense	36,189	22,312

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2010	Year ended 31 December 2009
Recovery of loans and receivables previously written off	95,451	1,919
Revenue on sale of agricultural products and other non-banking activities of subsidiaries	79,036	23,840
Fines and penalties received	9,273	6,149
Gratis property received	6,245	-
Income from operating leases	400	440
Net ncome from disposal of property and equipment and other assets	112	2,092
Other	25,250	4,426
Total other income	215,767	38,866

(in millions of Belarusian Rubles unless otherwise stated)

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Staff costs	225,133	166,309
Social security contributions	66,495	50,406
Depreciation and amortization	44,240	26,381
Utilities, rentals and maintenance	35,336	28,266
Taxes, other than income tax	32,186	31,603
Contributions to deposits protection fund	29,021	23,018
Raw materials and inventory consumed in non-banking activities of subsidiaries	25,813	17,087
Charity	20,658	994
Stationery and other office expenses	18,481	9,633
Security expenses	18,033	15,115
Expenses on payments processing and transmission	12,139	9,132
Professional services	8,874	7,223
Vehicles maintenance and fuel	6,414	4,409
Communications and postage	4,432	4,080
Software procurement and maintenance expenses	3,669	3,937
Other expenses	48,185	15,441
Total operating expenses	599,109	413,034

11. INCOME TAXES

The Group provides for current tax 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, the tax rate for Belarusian banks and companies was 24% for the republican tax and 3% for the municipal tax. The rates were charged successively. Therefore, in 2010 and 2009 the combined current tax rate was 26.28%. As at 1 January 2011 the tax rate was changed to 24% and has been used for the deferred tax calculation. PUE "Ozeritskiy-Agro" and OJSC "Turovschina" are not subject to income taxes. The Bank's branches are separate taxpayers of the income taxes.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and tax exemptions for certain income. Major sources of non-deductible expenses include expenses over prescribed norms, fines and penalties, branches losses. Major amounts of non-taxable income relate to operations with securities issued by the Government, state local authorities and commercial companies.

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 of income and expense recognition as well as to recorded values of certain assets.

(in millions of Belarusian Rubles unless otherwise stated)

Temporary differences as at 31 December 2010 and 2009 comprise:

	31 December 2010	31 December 2009
Deductible temporary differences:		
Property, equipment and intangible assets	117,918	126,424
Other assets	32,881	22,422
Other liabilities	7,362	18,157
Derivative financial instruments	372	-
Total deductible temporary differences	158,533	167,003
Taxable temporary differences:		
Loans to customers	(450,481)	(217,918)
Investments in securities available for sale	(29,674)	
Customer accounts	(3,505)	-
Accrued interest and commission income	-	(107,719)
Derivative financial instruments	-	(4,388)
Due to banks	-	(4,036)
Total taxable temporary differences	(483,660)	(334,061)
Net temporary differences	(325,127)	(167,058)
Net deductible temporary differences	121,939	109,175
Net taxable temporary differences	(447,066)	(276,233)
Deferred tax assets at the rate 24% and 26.28%, respectively	29,265	28,692
Less deferred tax assets not recognized	(14,248)	(2,935)
Net deferred tax assets	15,017	25,757
Deferred tax liability at the rate 24% and 26.28%, respectively	(107,296)	(72,594)
Net deferred tax position	(92,279)	(46,837)

(in millions of Belarusian Rubles unless otherwise stated)

The relationships between the effective tax expense and expenses at the statutory tax rate for the years ended 31 December 2010 and 2009 are explained as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income taxes	481,809	552,026
Tax at the statutory tax rate (26.28%)	126,619	145,072
Effect of accounting for transactions under government lending programs and Government deposits	(7,913)	(7,129)
Tax effect of non-deductible expenses and losses not carried forward in accordance with legislation	54,147	47,241
Tax effect of non-taxable income and other tax benefits	(96,632)	(41,606)
Effect of change in tax base of property and equipment due to revaluation performed under Belarusian statutory accounting rules	(19,934)	(3,877)
Effect of change in unrecognized deferred tax asset	11,313	(2,424)
Effect of change in effective tax rate	(2,104)	-
Income tax expense	65,496	137,277
Current income tax expense	20,054	90,440
Deferred income tax expense	45,442	46,837

Movement in unrecognized deferred tax asset:

	Year ended 31 December 2010	Year ended 31 December 2009
As at the beginning of the year	2,935	5,359
Increase/(decrease) in unrecognized deferred tax asset	11,313	(2,424)
As at the end of the year	14,248	2,935

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

Cash and balances with the National Bank comprise:

	31 December 2010	31 December 2009
Balances with the National Bank	2,136,262	109,601
Cash	373,829	293,896
Total cash and balances with the National Bank	2,510,091	403,497

The balances with the National Bank as at 31 December 2010 and 2009 included minimum reserve deposit in the amount of BYR 50,980 million and BYR 107,937 million, respectively. The Bank is required to maintain the minimum reserve deposit with the National Bank at all times.

Minimum reserve deposit with the National Bank is excluded from financial assets for the purpose of disclosures in relation to financial instruments.

(in millions of Belarusian Rubles unless otherwise stated)

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

	31 December 2010	31 December 2009
Cash and balances with the National Bank	2,510,091	403,497
Due from banks in OECD countries with original maturities less than 90 days	283,942	11,566
Total cash and cash equivalents	2,794,033	415,063
Less long-term deposits with the National Bank	(1,246,126)	-
Less minimum reserve deposit with the National Bank	(50,980)	(107,937)
Total cash and cash equivalents	1,496,927	307,126

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2010	31 December 2009
Correspondent accounts and other demand deposits with banks	351,921	81,494
Loans and term deposits from banks	-	286
Total due from banks	351,921	81,780

As at 31 December 2010 and 2009 correspondent accounts and other demand deposits with banks included fixed amounts of BYR 28,248 million and BYR 47,928 million, respectively, placed as guarantee deposits on letters of credit, operations with plastic cards and settlements with international payment systems.

14. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments as at 31 December 2010 comprised the following:

Foreign currency purchase contracts (forwards and swaps)	Nominal amount (in units of currency to be purchased)	Fair value	
		Asset	Liability
USD / BYR	USD 10,000,000	8,198	-
EUR / USD	EUR 23,000,000	433	(5)
RUB / EUR	RUB 121,193,850	17	-
RUB / USD	RUB 106,772,750	15	-
Total derivative financial instruments		8,663	(5)

(in millions of Belarusian Rubles unless otherwise stated)

Derivative financial instruments as at 31 December 2009 comprised the following:

Foreign currency contracts (forwards)	Nominal amount (in units of currency to be purchased)	Fair value Asset	Fair value Liability
USD / BYR	USD 16,200,000	10,393	(215)
EUR / BYR	EUR 12,500,000	9,427	(77)
USD / RUB	USD 4,500,000	78	-
USD / EUR	USD 4,099,505	27	(34)
EUR / RUB	EUR 1,000,000	1	-
Total derivative financial instruments		19,926	(326)

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2010	31 December 2009
Originated loans	23,551,045	17,795,874
Net investment in finance lease	104,370	119,417
	23,655,415	17,915,291
Less allowance for impairment losses	(826,414)	(425,553)
Total loans to customers	22,829,001	17,489,738

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

Loans, grouped by the type of collateral and by sector are presented in the following tables. Grouping by collateral is based on carrying amount of the loan rather than on fair value or otherwise adjusted value of collateral.

	31 December 2010	31 December 2009
Loans collateralized by guarantees of the Government and local authorities	12,312,495	9,809,174
Loans collateralized by property and inventory	5,205,632	4,048,580
Loans collateralized by real estate	2,798,871	2,018,645
Loans collateralized by lien over property and receivables	1,894,233	1,117,997
Loans collateralized by cash	94,768	3,786
Loans collateralized by other types of collateral	1,349,416	917,109
	23,655,415	17,915,291
Less allowance for impairment losses	(826,414)	(425,553)
Total loans to customers	22,829,001	17,489,738

(in millions of Belarusian Rubles unless otherwise stated)

	31 December 2010	31 December 2009
Analysis by sector:		
Agriculture	11,248,691	8,252,695
Manufacturing	5,818,747	4,990,998
Trade	3,369,287	2,372,914
Individuals	1,162,321	904,177
Construction	335,400	251,568
Government bodies	39,808	104,995
Other	1,681,161	1,037,944
	23,655,415	17,915,291
Less allowance for impairment losses	(826,414)	(425,553)
Total loans to customers	22,829,001	17,489,738

As at 31 December 2010 and 2009 all loans were provided to the residents of the Republic of Belarus, which represents significant geographical concentration risk.

As at 31 December 2010 and 2009 loans with the carrying amount before allowance for impairment losses amounted to BYR 939,288 million and BYR 30,268 million, respectively, were pledged to secure liabilities on debt securities issued (Note 22).

Loans to individuals comprise the following products:

	31 December 2010	31 December 2009
Consumer loans	989,030	792,710
Loans for purchase/construction of property	173,291	111,467
	1,162,321	904,177
Less allowance for impairment losses	(4,927)	(2,540)
Total loans to individuals	1,157,394	901,637

(in millions of Belarusian Rubles unless otherwise stated)

The table below summarizes an analysis of loans to customers by impairment:

	31 December 2010			31 December 2009		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually assessed for impairment	2,283,614	(114,305)	2,169,309	1,188,623	(68,504)	1,120,119
Loans to customers collectively assessed for impairment	21,285,700	(712,109)	20,573,591	16,649,358	(357,049)	16,292,309
Unimpaired loans	86,101	-	86,101	77,310	-	77,310
Total	23,655,415	(826,414)	22,829,001	17,915,291	(425,553)	17,489,738

As at 31 December 2010 loans to customers did not include any loans whose final maturity renegotiated.

As at 31 December 2009 loans to customers included loans in the amount of BYR 1,839 million whose final maturity has been renegotiated. Otherwise these loans would be past due or impaired.

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

	31 December 2010	**31 December 2009**
Not later than one year	66,834	47,376
From one year to five years	57,931	104,728
Minimum lease payments	124,765	152,104
Less: unearned finance income	(20,395)	(32,687)
Net investment in finance lease	104,370	119,417
Less allowance for impairment losses	(1,305)	(1,252)
Total net investments in finance lease	103,065	118,165
Current portion	56,032	37,267
Long-term portion	48,338	82,150
Net investment in finance lease	104,370	119,417
Less allowance for impairment losses	(1,305)	(1,252)
Total net investments in finance lease	103,065	118,165

(in millions of Belarusian Rubles unless otherwise stated)

Participation in the Government lending programs

The Bank participates in the Government programs on granting beneficial loans to the agricultural sector and related industries. Under the major programs since 1996 the Bank granted loans for housing construction, since 2003 - loans for the acquisition of agricultural machinery, and since 2008 - loans for milk farms construction and for current assets financing of certain categories of agricultural and related enterprises. Several other Government lending programs are also carried out by the Bank. Part of the loans was issued from the funds received by the Bank from Government contributions to share capital and part from borrowed funds. For the loans issued from borrowed funds the Government provided compensation to the Bank to compensate for the fact that several loan programs are issued at non market beneficial rates to the borrower:

- In respect of the loans issued in 2008 and 2009 under the programs of milk farms construction - 6.5% per annum and for current assets financing of certain categories of agricultural and related enterprises - 3.25% per annum;
- In respect of other loans - for the difference between the loan rate and refinance rate of the National Bank plus 3%.

As of 31 December 2010 the Bank had contractual commitments to disburse loans at below market rate for the purposes of agricultural machines purchase, financing of investment loans in accordance with the Order of the President of the Republic of Belarus and development of meat and dairy sector in the amount of BYR 352,239 million. As at 31 December 2009 the Bank had contractual commitments to disburse loans at below market rate to a manufacturing enterprise resident of the Republic of Belarus in the nominal amount of BYR 11,969 million. These commitments were recognized as financial liabilities at estimated fair value of BYR 96,575 million and BYR 5,157 million, respectively.

The information on loans issued under the major Government programs is presented in the following table:

	Interest rate paid by the borrower	Term of the loan, years	Nominal amount		Amortized cost	
			31 December 2010	31 December 2009	31 December 2010	31 December 2009
Housing loans - non-compensated	3%	40	2,157,678	2,207,959	2,157,678	2,207,959
Housing loans - compensated	3%	40	3,219,847	2,200,689	3,219,847	2,200,689
Machinery loans - non-compensated	2%, 4%	5-9	115,898	118,803	89,956	99,059
Machinery loans - compensated	0%	5-9	1,120,377	801,433	991,657	649,139
Milk farms construction loans- compensated	0%	up to 12	898,307	981,841	642,502	687,160
Current assets financing - compensated	3.25%	2-5	95,289	1,049,244	94,311	1,029,480
Other beneficial loans - non-compensated	0-15%	1-16	1,219,735	158,266	873,759	145,266
Other beneficial loans - compensated	0-12%	up to 8	233,146	108,786	195,671	72,741
Total loans under Government programs			9,060,277	7,627,021	8,265,381	7,091,493

(in millions of Belarusian Rubles unless otherwise stated)

The interest rates on housing and machinery loans are significantly lower than inflation rates in the Republic of Belarus and refinance rate of the National Bank. Housing loans have a 3 year grace period for principal repayment.

Loans for housing construction do not have similar financial instruments in the market and due to their unique nature as well as the specifics of Government program loans and the borrowers' category and represent a separate market segment. Therefore management believes that the contractual interest rate of 3% per annum is the market rate for such loans.

Loans issued under other Government programs are considered to be issued at a below market rates.

Until 2004 the housing and machinery loans were granted from funds borrowed from the Government. In further years funds were provided by means of direct contributions to share capital for part of loans and part of loans were issued from own resources of the Bank. The Government program loans other than housing and machinery were issued from own resources of the Bank at all times.

The Bank initially measures loans originated at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using an estimate of a market interest rate for short-term corporate loans at the date of relevant instrument's inception.

16. INVESTMENTS IN SECURITIES AVAILABLE FOR SALE

Investments in securities available for sale comprise:

	31 December 2010	31 December 2009
Securities available for sale		
Bonds issued by local authorities	938,057	60,814
Long-term Government bonds	295,766	341,015
Bond issued by legal entities	157,730	64,236
Bond issued by non-banking financial institutions	3,552	-
	1,395,105	466,065
Corporate shares available for sale	177,922	50,808
Total investments in securities available for sale	1,573,027	516,873

As at 31 December 2010 bonds issued by legal entities are presented less allowance for impairment in the amount of BYR 2,738 million.

Long-term Government bonds - BYR denominated Government securities with original maturity of over one year and coupon or discount income that are issued by the Ministry of Finance of the Republic of Belarus.

Bonds issued by local authorities - BYR denominated coupon securities that are issued by regional executive committees with maturities from two years and six months to ten years.

Bond issued by legal entities - BYR denominated coupon securities that are issued by Belarusian enterprises with original maturity from one month to seven years.

Bond issued by non-banking financial institutions - BYR denominated coupon securities, issued by an insurance company with original maturity of eight months.

As at 31 December 2010 and 2009 included in securities available for sale were long-term Government bonds in the amount of BYR 27,914 million and BYR 48,801 million, respectively, which were pledged as collateral for debt securities issued (Note 22).

As at 31 December 2010 and 31 December 2009 long-term government bonds with fair value of BYR 267,197 million and BYR 288,987 million, respectively, were pledged as collateral for loans under repurchase agreements with the Belarusian banks (Note 20).

As at 31 December 2010 bonds issued by local authorities with fair value of BYR 368,727 million were pledged as collateral for the lombard credit of National Bank.

As at 31 December 2010 and 2009 shares available for sale included shares of a Belarusian leasing company in the amount of BYR 175,003 million and BYR 50,003 million, respectively. The Group's share capital of the company amounted to 12.5%. These investments do not have a quoted market price and were recorded in the consolidated financial statements at cost.

(in millions of Belarusian Rubles unless otherwise stated)

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

The movements in property, equipment and intangible assets were as follows:

	Buildings	Computer equipment	Vehicles	Furniture, other equipment, and intangible assets	Construction in progress	Total
Gross book value						
31 December 2008	210,498	45,740	17,137	96,072	65,628	435,075
Additions	38,862	15,653	10,833	39,796	42,033	147,177
Putting into operation and transfers	36,509	1,671	79	5,173	(43,432)	-
Disposals	(1,099)	(1,661)	(1,199)	(4,615)	-	(8,574)
31 December 2009	284,770	61,403	26,850	136,426	64,229	573,678
Additions	24,277	8,873	8,364	79,967	81,851	203,332
Putting into operation and transfers	61,783	81	81	2,342	(64,287)	-
Business combinations	18,323	50	4,245	30,866	3,383	56,867
Disposals	(4,101)	(1,588)	(1,216)	(8,088)	(133)	(15,126)
31 December 2010	385,052	68,819	38,324	241,513	85,043	818,751
Accumulated depreciation						
31 December 2008	17,265	19,059	7,909	26,980	-	71,213
Charge for the year	4,574	7,801	2,207	13,342	-	27,924
Disposals	(324)	(1,593)	(1,072)	(1,591)	-	(4,580)
31 December 2009	21,515	25,267	9,044	38,731	-	94,557
Charge for the year	9,888	10,250	4,538	23,710	-	48,386
Disposals	(395)	(1,663)	(1,053)	(1,570)	-	(4,681)
31 December 2010	31,008	33,854	12,529	60,871	-	138,262
Net book value						
31 December 2010	354,044	34,965	25,795	180,642	85,043	680,489
31 December 2009	263,255	36,136	17,806	97,695	64,229	479,121

(in millions of Belarusian Rubles unless otherwise stated)

A part of depreciation charge for the years ended 31 December 2010 and 2009 in the amount of BYR 4,146 million and BYR 1,543 million, respectively, is included in carrying amount of inventory and work in progress from agricultural activities.

18. OTHER ASSETS

Other assets comprise:

	31 December 2010	31 December 2009
Other financial assets		
Settlements with Belarusian stock exchange on foreign currency transactions	24,634	2,024
Accrued commissions receivable	7,183	5,036
Accounts receivable on non-banking activities	2,299	499
Other accounts receivable	194	63
Total other financial assets	34,310	7,622
Other non-financial assets		
Equipment for transfer to finance lease	126,365	111,948
Inventory and work in progress in agricultural operations	75,236	39,447
Tax settlements, other than income taxes	45,067	41,770
Prepayments for property, equipment and intangible assets	15,769	7,652
Other prepayments	25,601	22,004
Other non-financial assets	6,417	6,460
Total other assets	328,765	236,903

19. DUE TO THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

Balances due to the National Bank of the Republic of Belarus comprised:

	31 December 2010	31 December 2009
Long-term loans	3,880,638	2,234,900
Short-term loans	1,151,426	319,577
Total due to National Bank	5,032,064	2,554,477

(in millions of Belarusian Rubles unless otherwise stated)

20. DUE TO BANKS

Due to banks comprise:

	31 December 2010	31 December 2009
Loans from banks	3,933,452	3,236,738
Loans under repurchase agreements	265,463	285,833
Correspondent accounts of banks	4,403	10,723
Syndicated loans from groups of banks	-	122,250
Total due to banks	4,203,318	3,655,544

As at 31 December 2010 and 2009 the balances due to banks in the amounts of BYR 1,558,493 million and BYR 1,321,241 million were due to two banks (resident of the Republic of Belarus and resident of an OECD country) and one bank (resident of the Republic of Belarus), respectively, amount due to each exceeding 10% of the total due to banks.

As at 31 December 2010 and 2009 loans under repurchase agreements are represented by short-term loans granted by Belarusian banks with maturity of up to 30 days and from 31 to 90 days which are collateralized by long-term Government bonds at fair value of BYR 267,197 million and BYR 288,987 million, respectively (Note 16).

21. CUSTOMERS ACCOUNTS

Customer accounts comprise:

	31 December 2010	31 December 2009
Time deposits	7,984,568	6,793,095
Current accounts and deposits repayable on demand	2,383,437	1,336,312
Total customer accounts	10,368,005	8,129,407

During the year ended 31 December 2010 and 2009 the Group received long-term BYR denominated deposits from government bodies at below market rates. Funds received were used for issuing of loans to customers under Government programs (Note 15).

(in millions of Belarusian Rubles unless otherwise stated)

The Bank initially measures deposits received at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using refinancing rate of the National Bank as of the date of relevant instrument's inception. On initial recognition an adjustment is recorded under item "Net effect of initial recognition of financial instruments at fair value". The information on these deposits is presented in the following table:

	31 December 2010	**31 December 2009**
Nominal amount	1,854,618	2,848,674
Amortized cost	1,426,961	2,402,780

	Year ended 31 December 2010	**Year ended 31 December 2009**
Initial fair value adjustment	73,812	367,105

As at 31 December 2010 and 31 December 2009 customer accounts amounting to BYR 113,714 million and BYR 53,867 million, respectively, were pledged as collateral for letters of credit issued by the Group.

As at 31 December 2010 and 2009 customer accounts amounting to BYR 183,728 million and BYR 4,458 million, respectively, were pledged as collateral for clients' obligations to the Group.

As at 31 December 2010 customer accounts amounting to BYR 4,802,939 million (46% of all customer accounts) belonged to 3 clients (2 state governing bodies and 1 non-banking financial institution).

As at 31 December 2009 customer accounts amounting to BYR 4,417,297 million (54% of all customer accounts) belonged to 2 clients (2 state governing bodies).

Analysis by sector:	**31 December 2010**	**31 December 2009**
Government bodies	5,010,423	4,556,930
Individuals	2,599,168	2,037,518
Insurance and finance	1,422,259	123,493
Manufacturing	463,869	310,108
Trade	328,467	511,886
Agriculture	228,702	205,313
Construction	130,487	132,734
Transport	11,615	10,657
Other	173,015	240,768
Total customer accounts	10,368,005	8,129,407

(in millions of Belarusian Rubles unless otherwise stated)

22. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2010	31 December 2009
Interest bearing bonds	2,119,269	159,732
Bonds issued with a discount	77,136	13,605
Promissory notes	-	21
Total debt securities issued	2,196,405	173,358

Interest bearing bonds - BYR and foreign currency denominated debt securities with original maturity ranging from one to ten years and interest income that are issued by the Bank for individuals and legal entities.

Bonds issued with a discount – BYR, USD and EUR denominated debt securities with original maturity ranging from one to two years that are issued by the Bank for individuals.

Bank's bonds are listed on the Belarusian Currency Stock Exchange.

As at 31 December 2010 and 2009 all interest bearing bonds as well as all bonds issued with a discount rate were secured with long-term housing loans provided to the Banks customers with the carrying amount of BYR 939,288 million and BYR 30,268 million respectively (Note 15), and long-term Government bonds, which are owned by the Bank in the carrying amount of BYR 27,914 million and BYR 48,801 million respectively (Note 16).

In 2010 the Group issued long-term bonds denominated in BYR at interest rate below market, purchased by the National Bank of the Republic of Belarus. The proceeds were used for financing loans to the Belarusian agriculture companies (Note 15), including financing of the subsidiaries of the group operating in the agricultural sector.

The Bank initially measures debt securities issued at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using refinancing rate of the National Bank as of the date of relevant instrument's inception. On initial recognition adjustment is recorded under item "Net effect of initial recognition of financial instruments at fair value".

The information on these debt securities issued is presented in the following table:

	31 December 2010	31 December 2009
Cost	435,566	-
Amortised cost	169,053	-

	Year ended 31 December 2010	Year ended 31 December 2009
Initial fair value adjustment	277,866	-

(in millions of Belarusian Rubles unless otherwise stated)

23. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2010	31 December 2009
Other financial liabilities:		
Trade payables on non-banking activities	18,071	14,858
Other creditors	16,217	11,107
Total other financial liabilities	34,288	25,965
Other non-financial liabilities:		
Advances and prepayments received	60,824	43,888
Provision for guarantees and other commitments	36,619	18,117
Accruals on unused vacations	5,099	4,252
Taxes, other than income tax	2,760	4,106
Other	13,865	3,187
Total other liabilities	153,455	99,515

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

24. SHARE CAPITAL

As at 31 December 2010 and 2009 the authorized, issued and fully paid share capital comprised 2,501,810,642 and 1,939,310,642 ordinary shares, respectively, with a par value of BYR 2,000 each, respectively, and 6,881 preference shares with a par value of BYR 2,000 each (all at statutory historical cost before fair value adjustment and restatement for hyperinflation). All ordinary shares are ranked equally and carry one vote. Preference shares are not redeemable and non-voting except for participation in limited range of decisions stated in the Bank's charter; amount of dividends for preference shares is determined annually by shareholders meeting.

The Bank’s shares are listed on the Belarusian Currency Stock Exchange, though operations with shares are highly restricted and regulated.

In December and July 2010 the Bank issued 500,000,000 and 62,500,000 ordinary shares, which were paid by cash by State Budget in the amount BYR 1,000,000 million and BYR 125,000 million, respectively.

In October 2009 the Bank issued 25,000,000 ordinary shares, which were paid by cash by PUE "Beleximgarant" in the amount BYR 50,000 million.

The dividends declared and paid in 2010 for 2009 amounted to BYR 4.4 per ordinary share and BYR 300 per preference share. Total amount of dividends was BYR 8,541 million.

The dividends declared and paid in 2009 for 2008 amounted to BYR 3.44 per ordinary share and BYR 300 per preference share. Total amount of dividends was BYR 6,587 million.

During the year ended 31 December 2010 the Bank purchased its own shares in the amount of BYR 9 million.

During the year ended 31 December 2009 the Bank sold treasury shares in the amount of BYR 2 million.

(in millions of Belarusian Rubles unless otherwise stated)

The Bank's reserves distributable to shareholders are limited to the amount of retained earnings that are stated in the financial statements prepared in accordance with Belarusian statutory accounting rules. As per those financial statements as at 31 December 2010 and 2009 the retained earnings comprised BYR 250,190 million and BYR 85,500 million, respectively (not audited). Non-distributable funds comprise the reserve fund and tangible assets revaluation fund. The reserve fund was created under Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities.

Business Combinations

In March 2010 the Utility Agricultural Unitary Company "Agro-Pripyat", which was owned by the State, transferred gratis the enterprise as a property complex to the Open Joint Stock Company "Turovschina", a subsidiary of the Bank. The main activity of the company "Agro-Pripyat" is the production of agricultural products in the territory of the Republic of Belarus. Gratuitous transfer was structured in the form of combination with a one-off transfer of control. The fair value of identifiable net assets of the company "Agro-Pripyat" was determined at the acquisition date and recognized in these consolidated financial statements as an income from business combination in the equity under caption "Transfer of subsidiaries from state to the Bank, including changes in ownership structure of subsidiaries".

Net assets of the company "Agro-Pripyat" at the acquisition date were presented as follows:

Property and equipment and intangible assets	33,918
Inventory	14,122
Accounts receivable and other current assets	6,323
Cash	1
Accounts payable and loans and borrowings received	(40,587)
Total net assets	13,777
Non-controlling interest	(14)
Fair value of consideration transferred	-
Income from business combination	13,763

In June 2010 the State transferred gratis to the Bank shares of the Open Joint Stock Company "Turov", the main activity of which is the production and sale of canned vegetables in the territory of the Republic of Belarus. As a result of gratuitous transfer the Bank acquired 71.4% shares in Open Joint Stock Company "Turov" and control over it. The fair value of identifiable net assets of Open Joint Stock Company "Turov" was determined at the acquisition date and recorded in these consolidated financial statements as an income from business combination in the equity under caption "Transfer of subsidiaries from state to the Bank, including changes in ownership structure of subsidiaries".

Net assets of Open Joint Stock Company "Turov" at the acquisition date were presented as follows:

Fixed and intangible assets	22,949
Inventory	12,934
Accounts receivable and other current assets	5,422
Cash	60
Accounts payable and loans and borrowings received	(14,426)
Total net assets	26,939
Non-controlling interest	(7,715)
Fair value of consideration transferred	-
Income from business combination	19,224

(in millions of Belarusian Rubles unless otherwise stated)

Non-controlling interests at the acquisition date were defined as the proportionate share of non-controlling interest in the identifiable net assets of Open Joint Stock Company "Turov".

In December 2010 Open Joint Stock Company "Turov" and Open Joint Stock Company "Turovschina" were combined through the exchange of shares.

25. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments, which are not reflected in the statement of financial position, in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk.

The Group'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.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance sheet operations.

As at 31 December 2010 and 2009 provision on guarantees and other commitments amounted to BYR 36,619 million and BYR 18,117 million, respectively (Note 23).

As at 31 December 2010 and 2009 the nominal or contract amounts were:

	31 December 2010	31 December 2009
Guarantees issued and similar commitments	84,175	80,946
Letters of credit issued	793,668	292,159
Commitments on loans and unused credit lines	1,503,939	705,788
Total contingent liabilities and credit commitments	2,381,782	1,078,893

As at 31 December 2010 and 2009 commitments on loans and unused credit lines include commitments to issue loans below market rates in the nominal amount of BYR 345,405 million and BYR 11,969 million, respectively. These commitments were recognized as financial liabilities at approximated fair value of BYR 96,575 million and BYR 5,157 million, respectively (Note 14).

Operating lease commitments - The Group had no material commitments on operating leases outstanding as at 31 December 2010 and 2009.

Legal proceedings - From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management believes that no material unaccrued losses will be incurred and accordingly no provision was created in these consolidated financial statements.

Pensions and retirement plans **-** Employees are entitled for pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2010 and 2009 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

26. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group it gives then significant influence over the Group; and that have joint control over the Group;
(b) Associates - enterprises on which the Group has significant influence and which are neither a subsidiary nor a joint venture of the Group;
(c) Joint ventures in which the Group is a venturer;
(d) Members of key management personnel of the Group;
(e) Close members of the family of any individuals referred to in (a) or (d);
(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

(in millions of Belarusian Rubles unless otherwise stated)

Group's related parties' balances as at 31 December 2010 and 2009 are as follows:

	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
Due from the National Bank of the Republic of Belarus	**2,136,262**	**2,136,262**	**109,601**	**109,601**
Due from banks	**1,674**	**351,921**	**1,608**	**81,780**
- state entities (under common control of the State)	1,674		1,608	
Derivative financial instruments (assets)	**8,198**	**8,663**	**19,820**	**19,926**
- Government bodies (the National Bank)	8,198		19,820	
Loans to customers, gross	**14,239,124**	**23,655,415**	**10,506,477**	**17,915,291**
- state entities (under common control of the State)	14,193,978		10,398,884	
- Government bodies	39,808		104,995	
- key management personnel	2,692		2,598	
- associates	2,646		-	
Allowance for impairment losses on loans to customers	**(552,180)**	**(826,414)**	**(288,920)**	**(425,553)**
- state entities (under common control of the State)	(550,547)		(281,673)	
- Government bodies	(1,486)		(7,247)	
- associates	(147)		-	
Investments in securities available for sale	**1,462,692**	**1,573,027**	**475,990**	**516,873**
- Government bodies	1,224,989		401,829	
- state entities (under common control of the State)	237,703		74,161	
Current income taxes asset	**11,243**	**11,243**	**9,046**	**9,046**
Other assets	**71,135**	**328,765**	**44,324**	**236,903**
- Government bodies	45,068		41,771	
- state entities (under common control of the State)	26,067		2,553	
Due to the National Bank of the Republic of Belarus	**5,032,064**	**5,032,064**	**2,554,477**	**2,554,477**
Due to banks	**1,095,212**	**4,203,318**	**908,469**	**3,655,544**
- state entities (under common control of the State)	1,095,212		908,469	
Customer accounts	**7,638,595**	**10,368,005**	**5,316,286**	**8,129,407**
- Government bodies	5,010,423		4,556,930	
- state entities (under common control of the State)	2,498,039		658,897	
- shareholders of the Bank	127,124		98,292	
- associates	186		-	
- key management personnel	2,823		2,167	
Debt securities issued	**1,944,476**	**2,196,405**	**39,271**	**173,358**
- Government bodies	1,877,132		223	
- state entities (under common control of the State)	57,364		26,486	
- shareholders of the Bank	9,980		12,562	

(in millions of Belarusian Rubles unless otherwise stated)

	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**
Current income taxes liability	**9,023**	**9,023**	**11,237**	**11,237**
Commitments to provide loans at below market rates	**96,575**	**96,575**	**5,157**	**5,157**
- state entities (under common control of the State)	96,575		5,157	
Other liabilities	**3,386**	**153,455**	**16,686**	**99,515**
- Government bodies	2,983		4,106	
- state entities (under common control of the State)	378		18	
- shareholders	25		12,562	
Guarantees issued and similar commitments	**55,809**	**84,175**	**53,439**	**80,946**
- Government bodies	3,578		946	
- state entities (under common control of the State)	52,231		52,493	
Letters of credit issued	**475,738**	**793,668**	**246,921**	**292,159**
- state entities (under common control of the State)	449,021		243,848	
- Government bodies	8,735		3,073	
- associates	17,982		-	
Commitments on loans and unused credit lines	**818,438**	**1,503,939**	**362,497**	**705,788**
- state entities (under common control of the State)	787,714		361,760	
- Government bodies	6,805		388	
- key management personnel	982		349	
- associates	22,937		-	
Provision for guarantees and other commitments	**23,521**	**36,619**	**15,410**	**18,117**
- state entities (under common control of the State)	23,521		15,410	

(in millions of Belarusian Rubles unless otherwise stated)

Included in the consolidated 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	**1,219,741**	**2,708,767**	**1,128,305**	**2,310,580**
-state entities (under common control of the State) – customers	1,124,796		1,109,808	
-Government bodies	94,211		18,060	
-state entities (under common control of the State) - banks	615		271	
-key management personnel	119		138	
-shareholders of the Bank	-		28	
Fee and commission income	**126,848**	**309,591**	**106,410**	**248,022**
-state entities (under common control of the State)	122,521		102,368	
-Government bodies	2,810		2,713	
-shareholders of the Bank	1,504		1,328	
-associates	13		-	
-key management personnel	-		1	
Net loss/(gain) on investments available for sale	**(170)**	**6,687**	**-**	**-**
-Government bodies	(133)		-	
-state entities (under common control of the State)	(37)		-	
Interest expenses	**993,456**	**1,670,744**	**1,064,882**	**1,534,236**
-Government bodies	503,038		581,320	
-National Bank (under common control of the State)	333,399		333,117	
-state entities (under common control of the State) - banks	102,655		112,007	
-state entities (under common control of the State) -customers	39,972		29,593	
-shareholders of the Bank	14,178		8,717	
-associates	124		-	
-key management personnel	90		128	
Allowance for impairment for interest bearing assets	**265,851**	**526,146**	**146,546**	**198,469**
-state entities (under common control of the State)	271,612		141,854	
-Government bodies	(5,761)		4,692	
Other provisions	**8,111**	**18,502**	**9,042**	**3,843**
-state entities (under common control of the State)	8,111		9,042	
Other income	**21,434**	**215,767**	**5,651**	**38,866**
-state entities (under common control of the State)	21,272		5,607	
-Government bodies	143		28	
-shareholders of the Bank	19		16	
Operating expenses	**147,490**	**599,109**	**120,713**	**413,034**
-Government bodies	140,762		114,204	
-key management personnel (remuneration)	6,417		5,961	
-state entities (under common control of the State)	311		548	
Current income tax expense	**20,054**	**20,054**	**90,440**	**90,440**

During the years ended 31 December 2010 and 2009 key management personnel remuneration included in operating expenses caption in the table above comprised of short-term employee benefits.

(in millions of Belarusian Rubles unless otherwise stated)

27. 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. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	31 December 2010		31 December 2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS:				
Cash and balances with the National Bank of the Republic of Belarus	2,459,111	2,459,111	295,560	295,560
Due from banks	351,921	351,921	81,780	81,780
Loans to individuals	1,157,394	1,157,394	901,637	901,637
Derivative financial instruments	8,663	8,663	19,926	19,926
Investments in debt securities available for sale	1,395,105	1,395,105	466,065	466,065
Other financial assets	34,310	34,310	7,622	7,622
FINANCIAL LIABILITIES:				
Due to the National Bank of the Republic of Belarus	5,032,064	5,032,064	2,554,477	2,554,477
Due to banks	4,203,318	4,203,318	3,655,544	3,655,544
Derivative financial instruments	5	5	326	326
Customer accounts with variable interest rate	5,281,644	5,281,644	2,881,806	2,881,806
Debt securities issued	2,196,405	2,196,405	173,358	173,358
Other financial liabilities	34,288	34,288	25,965	25,965

Loans to individuals are granted mainly at fixed interest rates, though the Bank uses the opportunity to unilaterally review interest rates, based on market conditions, which is provided for in standard loan contracts. The fair value of loans to individuals as at the reporting date approximates their carrying amount.

The fair value of loans granted to corporate customers at fixed interest rates is determined by the Bank on initial recognition on an individual basis, taking into account the borrower’s characteristics, the Bank's borrowing costs and market margins. Subsequently, the reliable determination of fair value of such loans as at the reporting date is not possible due to lack of available market information.

The fair value of customer accounts with floating interest rates as at the reporting date approximates their carrying amount. Reliable determination of fair value of deposits attracted at fixed interest rates as at the reporting date is not possible due to lack of available market information.

The fair value of equity investments of the Group cannot be reliably measured, as it is impossible to obtain market information or apply any other valuation technique for such financial instruments.

Determination of fair value for financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Determination of fair value for assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that have no active market fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

In millions of Belarusian Rubles

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Derivative financial instruments	-	8,663	-	8,663
Investments in debt securities available for sale	295,766	-	1,099,339	1,395,105
Total	295,766	8,663	1,099,339	1,403,768
FINANCIAL LIABILITIES:				
Derivative financial instruments	-	5	-	5
Total	-	5	-	5

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Derivative financial instruments	-	19,926	-	19,926
Investments in debt securities available for sale	341,015	-	125,050	466,065
Total	341,015	19,926	125,050	485,991
FINANCIAL LIABILITIES:				
Derivative financial instruments	-	326	-	326
Total	-	326	-	326

During 2010 the Group recognized interest income in the amount of BYR 65,436 million, negative fair value reserve for investments available for sale in the amount of BYR 3,811 million in other comprehensive income and impairment allowance on these investments in profit and loss in the amount of BYR 2,738 million on investments available for sale included in Level 3 above.

During 2009 the Group recognized interest income in the amount of BYR 2,914 million and negative fair value reserve for investments available for sale in the amount of BYR 6,538 million in other comprehensive income on investments available for sale included in Level 3 above.

28. SUBSEQUENT EVENTS

Dividends in the amount of BYR 18,666 million for the year 2010 were declared and approved in March 2011, comprising BYR 18,664 million for ordinary shares (BYR 7.46 per share) and BYR 2 million for preference shares (BYR 300 per share).

29. CAPITAL MANAGEMENT AND REGULATORY MATTERS

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

The Bank reviews the capital structure on a monthly basis. As a part of this review, the equity capital adequacy ratio is determined by comparing the Bank' own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The management of the Bank considers weighted average cost of capital and risks associated with each class of capital, and balances its overall capital structure through dividend policy, issues of new shares and debt as well as the redemption thereof.

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

As at 31 December 2010 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 6,144,713 million and BYR 6,148,030 with ratios of 24.2%.

As at 31 December 2009 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 4,563,492 million and BYR 4,574,625 million with ratios of 26.8% and 26.9%, respectively.

30. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. The Group follows approved documented risk management policy. This policy provides for a range of interconnected measures and steps in order to prevent and minimize losses which can be caused by risks inherent to bank's activity. A description of the Group's risk management policies in relation to those risks follows.

The Group manages the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

To minimize credit risk the Group pursues the following principles of lending process:

- collective decision making;
- segregation of lending decision authority based on the amount of risk to be taken;
- decision making based on weighted risk assessment;
- monitoring of lending operations until complete discharge of obligations by counterparty to the Group;
- overall valuation of risk to be taken at the stage of discussion and decision-making;
- optimization of decision-making system and concentration on individuals' loan portfolio at the branches and head office level.

Risk management of credit risk is carried out in three main directions: strategic management of credit risk, risk management of a specific credit transaction, the Bank's loan portfolio management.

Strategic management is principally the development and maintenance of the actual state of the methodological framework for the implementation of active banking operations.

Risk management of a specific credit transaction is a process aimed at minimizing risks for each credit transaction, including:

- credit ranking of organizations based on assessment of credit history and financial performance, to determine their ability to timely and fully fulfill the current and future obligations and determine the degree of risk that the Bank accepts while carrying out active banking operations;
- determination and review of limits for the total amount of claims to one borrower (a group of related borrowers), including the individual limits, which allows the Bank to monitor the financial condition of major borrowers;
- review of business plans for significant investment projects by specialized subdivisions, monitoring of borrowers' compliance with indicators of financial and operational activities set in business plans for investment projects.

The Bank's loan portfolio management is a process of determining direct actions on generated loan portfolio management, which includes: monitoring of the Bank's loan portfolio, dealing with bad debts, formation and management of reserves for impairment losses on assets (contingent liabilities), subject to credit risk.
Monitoring of the Bank's loan portfolio is carried out by means of control over each credit line, industry, as well as through analysis and determination of individual limits for the total amount of claims to one borrower (a group of related borrowers) at the Bank's Credit Committee level. The control of compliance with the established limits is carried out for each borrower.

To deal with bad debts the Bank approves and informs its bank branches about the monthly schedule of the bad debts level in Bank's loans; and strict control of compliance with this schedule is established. Bank branches receive methodical and practical assistance in recovery of overdue loans, sale of collateral, work with judicial and executive authorities. A database of the realizable property was created and work on its sale is carried out.

The Group obtains collateral and guarantees from corporate customers and individuals. The required amount and quality of collateral under each loan agreement is determined based on the credit rating of organizations. Credit risk and the level of collateral are constantly monitored.

The banking sector organizations are generally exposed to credit risk in respect of financial instruments and contingent liabilities. The Group's credit risk is concentrated in the Republic of Belarus.

(in millions of Belarusian Rubles unless otherwise stated)

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on:

	31 December 2010	**31 December2009**
	Maximum exposure	**Maximum exposure**
Balances with the National Bank	2,085,282	1,664
Due from banks	351,921	81,780
Derivatives	8,663	19,926
Loans to customers	22,829,001	17,489,738
Investments in debt securities available for sale	1,395,105	466,065
Other financial assets	34,310	7,622
Guarantees issued and similar commitments not secured by cash	72,916	64,440
Letters of credit not collateralized by customer deposits	679,955	238,293
Commitments on loans and unused credit lines	1,503,939	705,788

Financial assets are graded according to the current credit rating of the issuer, assigned by an internationally regarded agency Fitch Ratings Ltd as of the end of respective reporting period. Balances with the National Bank and state securities are graded according to the sovereign rating of the Republic of Belarus.

The following table details the counterparty credit ratings of financial assets held by the Group:

	AA	**A**	**BBB**	**Below BBB**	**Not rated**	**31 December 2010 Total**
Balances in the National Bank	-	-	-	2,085,282	-	2,085,282
Due from banks	305,706	6,713	26,949	10,630	1,923	351,921
Derivatives	-	-	-	8,663	-	8,663
Loans to customers	-	-	-	-	22,829,001	22,829,001
Investments in securities available for sale	-	-	-	296,106	1,276,921	1,573,027
Other financial assets	-	-	-	-	34,310	34,310

	AA	**A**	**BBB**	**Below BBB**	**Not rated**	**31 December 2009 Total**
Balances in the National Bank	-	-	-	1,664	-	1,664
Due from banks	57,904	1,824	13,565	7,736	751	81,780
Derivatives	-	-	-	19,926	-	19,926
Loans to customers	-	-	-	-	17,489,738	17,489,738
Investments in securities available for sale	-	-	-	341,355	175,518	516,873
Other financial assets	-	-	-	-	7,622	7,622

(in millions of Belarusian Rubles unless otherwise stated)

Geographical concentration

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

	Belarus	Other CIS countries	OECD countries	Other countries - non-OECD	31 December 2010 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	2,459,111	-	-	-	2,459,111
Due from banks	11,036	28,331	312,167	387	351,921
Derivative financial instruments	8,631	32	-	-	8,663
Loans to customers	22,829,001	-	-	-	22,829,001
Investments in debt securities available for sale	1,572,977	-	50	-	1,573,027
Other financial assets	34,292	-	18	-	34,310
TOTAL FINANCIAL ASSETS	26,915,048	28,363	312,235	387	27,256,033
FINANCIAL LIABILITIES:					
Due to the National Bank of the Republic of Belarus	5,032,064	-	-	-	5,032,064
Due to banks	1,754,904	837,887	1,604,525	6,002	4,203,318
Derivative financial instruments	-	-	5	-	5
Customer accounts	10,078,161	284,328	1,867	3,649	10,368,005
Debt securities issued	2,196,405	-	-	-	2,196,405
Other financial liabilities	34,021	-	267	-	34,288
TOTAL FINANCIAL LIABILITIES	19,095,555	1,122,215	1,606,664	9,651	21,834,085
OPEN POSITION	7,819,493	(1,093,852)	(1,294,429)	(9,264)	

(in millions of Belarusian Rubles unless otherwise stated)

	Belarus	Other CIS countries	OECD countries	Other countries - non- OECD	31 December 2009 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	295,560	-	-	-	295,560
Due from banks	6,240	16,179	59,115	246	81,780
Derivative financial instruments	19,847	79	-	-	19,926
Loans to customers	17,489,738	-	-	-	17,489,738
Investments in debt securities available for sale	516,823	-	50	-	516,873
Other financial assets	7,622	-	-	-	7,622
TOTAL FINANCIAL ASSETS	18,335,830	16,258	59,165	246	18,411,499
FINANCIAL LIABILITIES:					
Due to the National Bank of the Republic of Belarus	2,554,477	-	-	-	2,554,477
Due to banks	1,839,004	408,843	1,396,203	11,494	3,655,544
Derivative financial instruments	326	-	-	-	326
Customer accounts	8,100,054	15,181	11,860	2,312	8,129,407
Debt securities issued	173,358	-	-	-	173,358
Other financial liabilities	25,965	-	-	-	25,965
TOTAL FINANCIAL LIABILITIES	12,693,184	424,024	1,408,063	13,806	14,539,077
OPEN POSITION	5,642,646	(407,766)	(1,348,898)	(13,560)	

Liquidity risk

Liquidity risk – is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

In order to minimize liquidity risk Treasury, Department of Strategic Development, Finance and Economic Department, Department of Active Banking Operations, Securities Department, Foreign Trade Finance Department, Corporate Business Department, Foreign Currency Regulation and Control Department, Settlement Center perform planning and analysis of the Bank’s liquidity.

The Bank's liquidity planning is carried out through the following instruments: budgeted statement of financial position, payments calendar, a daily forecast of liquidity position, establishment of differentiated limits on active and passive operations.

The Bank's liquidity analysis includes:

- factor analysis, which is conducted to determine key factors affecting liquidity and the extent of their influence;
- analysis of assets and liabilities structure;
- preparation of analytical materials and formulation of recommendations on improvement of the structure and quality of assets and liabilities, liquidity indicators.

(in millions of Belarusian Rubles unless otherwise stated)

The Bank's liquidity management policy is determined by the Management Board. Decisions on liquidity operational management are made by the Finance Committee, Credit Committee, Chairman of the Management Board, Deputy Chairman of the Management Board supervising Treasury, Head of Treasury and deputies according to their authority, determined by the local legislative documents of the Bank and job descriptions.

The Treasury manages liquidity risk through performing the operations depending on current and forecasted liquidity position of the Bank (liquidity gap or surplus). Maintenance of liquidity position is achieved through daily forecasts and measures taken by Treasury with regard to optimization of financial result from alternative transactions. Considering "profitability-liquidity" alternative, preference is given to liquidity position.

An analysis of the liquidity and interest rate risks is presented below. It presents the remaining contractual maturity of non-derivative financial liabilities calculated for undiscounted cash flows on financial liabilities (both principal and interest cash flows) based on the earliest date on which the Group can be required to pay.

	Weighted average nominal interest rate	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:							
Due to the National Bank of the Republic of Belarus	1.88%	260,260	206	567,870	1,806,128	-	2,634,464
Due to banks	8.31%	778,633	143,781	372,689	8,959	14,074	1,318,136
Customer accounts	6.34%	785,811	1,409,552	806,442	2,011,239	1,035,059	6,048,103
Debt securities issued	6.43%	20,703	18,728	373,004	1,069,985	393,617	1,876,037
Total interest bearing liabilities at fixed rates		1,845,407	1,572,267	2,120,005	4,896,311	1,442,750	11,876,740
Due to the National Bank of the Republic of Belarus	10.50%	26,307	76,638	536,726	3,484,950	-	4,124,621
Due to banks	6.28%	42,645	238,605	679,058	1,593,593	1,205,521	3,759,422
Customer accounts	6.95%	2,662,049	198,447	591,801	2,272,443	5,221	5,729,961
Debt securities issued	11.45%	10,240	85,477	240,540	273,639	945,151	1,555,047
Total interest bearing liabilities at variable rates		2,741,241	599,167	2,048,125	7,624,625	2,155,893	15,169,051
Total interest bearing liabilities		4,586,648	2,171,434	4,168,130	12,520,936	3,598,643	27,045,791
Due to banks		1,670	-	-	-	-	1,670
Customer accounts		98,204	103,288	-	157	69	201,718
Other financial liabilities		21,672	3,603	3,622	2,291	3,100	34,288
Financial guarantee contracts and letters of credit		620,852	5,528	42,320	82,844	1,327	752,871
Commitments on loans and unused credit lines		1,366,193	12,924	22,786	102,036	-	1,503,939
TOTAL FINANCIAL LIABILITIES		6,695,239	2,296,777	4,236,858	12,708,264	3,603,139	29,540,277

(in millions of Belarusian Rubles unless otherwise stated)

	Weighted average nominal interest rate	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:							
Due to the National Bank of the Republic of Belarus	0.68%	52,958	10	33,576	-	-	86,544
Due to banks	14.52%	747,123	200,540	441,982	1,971	-	1,391,616
Customer accounts	9.28%	666,402	1,407,452	1,281,687	2,258,848	935,534	6,549,923
Debt securities issued	9.38%	4,833	4,167	95,879	32,942	-	137,821
Total interest bearing liabilities at fixed rates		1,471,316	1,612,169	1,853,124	2,293,761	935,534	8,165,904
Due to the National Bank of the Republic of Belarus	13.77%	47,285	70,126	436,123	3,310,475	-	3,864,009
Due to banks	7.03%	53,598	74,032	487,696	1,702,593	814,190	3,132,109
Customer accounts	9.03%	1,328,819	77,878	222,752	1,829,340	-	3,458,789
Debt securities issued	17.18%	22,821	11,233	14,615	141	-	48,810
Total interest bearing liabilities at variable rates		1,452,523	233,269	1,161,186	6,842,549	814,190	10,503,717
Total interest bearing liabilities		2,923,839	1,845,438	3,014,310	9,136,310	1,749,724	18,669,621
Due to banks		4,871	-	-	-	-	4,871
Customer accounts		48,604	220	-	-	18	48,842
Other financial liabilities		12,124	1,713	6,579	945	4,604	25,965
Financial guarantee contracts and letters of credit		236,152	3,547	56,311	6,723	-	302,733
Commitments on loans and unused credit lines		664,687	9,955	30,016	1,130	-	705,788
TOTAL FINANCIAL LIABILITIES		3,890,277	1,860,873	3,107,216	9,145,108	1,754,346	19,757,820

The analysis of financial assets and liabilities of the Group by contractual maturities and interest rate risk is presented in the following table:

(in millions of Belarusian Rubles unless otherwise stated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Over-due	Maturity unde-fined	31 December 2010 Total
FINANCIAL ASSETS:								
Due from banks	342,438	-	-	-	-	-	-	342,438
Loans to customers	887,889	2,595,427	6,280,626	5,979,372	7,001,183	84,504	-	22,829,001
Investments in debt securities available for sale	715	111,546	40,188	826,447	416,209	-	-	1,395,105
Total interest bearing assets	1,231,042	2,706,973	6,320,814	6,805,819	7,417,392	84,504	-	24,566,544
Cash and balances with the National Bank of the Republic of Belarus	1,177,821	-	-	1,281,290	-	-	-	2,459,111
Derivative financial instruments	465	-	8,198	-	-	-	-	8,663
Due from banks	9,483	-	-	-	-	-	-	9,483
Investments in securities available for sale	-	-	-	-	-	-	177,922	177,922
Other financial assets	8,071	2,485	415	1,915	21,138	286	-	34,310
TOTAL FINANCIAL ASSETS	2,426,882	2,709,458	6,329,427	8,089,024	7,438,530	84,790	177,922	27,256,033
FINANCIAL LIABILITIES:								
Due to the National Bank of the Republic of Belarus	259,817	24,285	867,324	3,880,638	-	-	-	5,032,064
Due to banks	804,192	349,139	925,841	1,168,263	954,213	-	-	4,201,648
Customer accounts	3,396,346	1,531,763	1,114,678	3,354,815	768,685	-	-	10,166,287
Debt securities issued	15,100	72,881	499,197	819,009	790,218	-	-	2,196,405
Total interest bearing liabilities	4,475,455	1,978,068	3,407,040	9,222,725	2,513,116	-	-	21,596,404
Due to banks	1,670	-	-	-	-	-	-	1,670
Derivative financial instruments	5	-	-	-	-	-	-	5
Customer accounts	98,204	103,288	-	157	69	-	-	201,718
Other financial liabilities	21,672	3,603	3,622	2,291	3,100	-	-	34,288
TOTAL FINANCIAL LIABILITIES	4,597,006	2,084,959	3,410,662	9,225,173	2,516,285	-	-	21,834,085
Liquidity gap	(2,170,124)	624,499	2,918,765	(1,136,149)	4,922,245			
Interest sensitivity gap	(3,244,413)	728,905	2,913,774	(2,416,906)	4,904,276			
Cumulative interest sensitivity gap	(3,244,413)	(2,515,508)	398,266	(2,018,640)	2,885,636			
Cumulative interest sensitivity gap as a percentage of total financial assets	(12%)	(9%)	1%	(7%)	11%			

(in millions of Belarusian Rubles unless otherwise stated)

	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:								
Due from banks	72,424	-	286	-	-	-	-	72,710
Loans to customers	984,389	1,936,818	4,550,286	4,535,135	5,307,646	175,464	-	17,489,738
Investments in debt securities available for sale	-	10,926	166,515	261,811	26,813	-	-	466,065
Total interest bearing assets	1,056,813	1,947,744	4,717,087	4,796,946	5,334,459	175,464	-	18,028,513
Cash and balances with the National Bank of the Republic of Belarus	295,560	-	-	-	-	-	-	295,560
Derivative financial instruments	106	-	9,427	10,393	-	-	-	19,926
Due from banks	9,070	-	-	-	-	-	-	9,070
Investments in securities available for sale	-	-	-	-	-	-	50,808	50,808
Other financial assets	5,553	150	262	496	790	371	-	7,622
TOTAL FINANCIAL ASSETS	1,367,102	1,947,894	4,726,776	4,807,835	5,335,249	175,835	50,808	18,411,499
FINANCIAL LIABILITIES:								
Due to the National Bank of the Republic of Belarus	72,307	15,146	232,124	2,234,900	-	-	-	2,554,477
Due to banks	780,754	236,058	801,793	1,269,950	562,118	-	-	3,650,673
Customer accounts	1,932,300	1,384,367	1,146,048	3,012,694	605,156	-	-	8,080,565
Debt securities issued	26,261	13,253	103,367	30,477	-	-	-	173,358
Total interest bearing liabilities	2,811,622	1,648,824	2,283,332	6,548,021	1,167,274	-	-	14,459,073
Due to banks	4,871	-	-	-	-	-	-	4,871
Derivative financial instruments	326	-	-	-	-	-	-	326
Customer accounts	48,604	220	-	-	18	-	-	48,842
Other financial liabilities	12,124	1,713	6,579	945	4,604	-	-	25,965
TOTAL FINANCIAL LIABILITIES	2,877,547	1,650,757	2,289,911	6,548,966	1,171,896	-	-	14,539,077
Liquidity gap	(1,510,445)	297,137	2,436,865	(1,741,131)	4,163,353			
Interest sensitivity gap	(1,754,809)	298,920	2,433,755	(1,751,075)	4,167,185			
Cumulative interest sensitivity gap	(1,754,809)	(1,455,889)	977,866	(773,209)	3,393,976			
Cumulative interest sensitivity gap as a percentage of total financial assets	(10%)	(8%)	5%	(4%)	18%			

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Group's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

Currently, a considerable part of customer deposits are short-term. However, these deposits are diversified by the number and type of customers.

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 financial instrument or its issuer or factors affecting all financial instruments traded in the market. The Group is exposed to market risks of its products which are subject to general and specific market fluctuations.

The Group 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 requirements.

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate assets and liabilities.

In order to effectively manage interest rate risk in the Bank the organizational structure of interest rate risk management, headed by the Supervisory Board and Management Board of the Bank, was determined; the appropriate tools to identify interest rate risk are used; systems of prudential and local estimates of interest rate risk operate; interest rate risk is monitored by structural divisions and branches of the Bank.

To minimize interest risk the Group uses the following instruments:

- centralized approach on setting interest rates on major types of placed and attracted resources;
- application, where necessary, interest rates on assets and liabilities linked to major financial market indicators (primarily to refinancing rate of the National Bank);
- borrowing and placement of funds preferably on terms that provide the Group with the right to change interest rates in case of change in market situation;
- preferential use of floating interest rates on attraction and allocation of resources;
- predominant use of standard contracts, with conditions, facilitating the reduction of interest rate risk;
- implementation of policy aimed at balanced position of assets and liabilities by maturities;
- permanent monitoring of interest margin, assets and liabilities subject to changes in interest rates;
- stress-testing.

(in millions of Belarusian Rubles unless otherwise stated)

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable" applied to floating rate financial instruments and to fixed rate financial instruments carried at fair value. The level of these changes is determined by management. The sensitivity analysis below represents the effect of 5% increase/reduction in interest rates existing at the end of reporting period on the profit before taxation of the Group assuming that the change took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

Impact on profit before tax:

	31 December 2010		**31 December 2009**	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
FINANCIAL ASSETS:				
Due from banks	14,325	(14,325)	954	(954)
Loans to customers	494,936	(494,936)	344,308	(344,308)
Investments in securities available for sale	64,690	(64,690)	14,694	(14,694)
FINANCIAL LIABILITIES:				
Due to the National Bank of the Republic of Belarus	(152,415)	152,415	(123,400)	123,400
Due to banks	(145,220)	145,220	(114,580)	114,580
Customer accounts	(264,082)	264,082	(144,090)	144,090
Debt securities issued	(45,308)	45,308	(2,321)	2,321
Net impact on profit before income taxes	(33,074)	33,074	(24,435)	24,435

Impact on equity:

	31 December 2010		**31 December 2009**	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
FINANCIAL ASSETS:				
Investments in securities available for sale	(941)	989	(6,373)	6,992
Net impact on equity	(34,015)	34,063	(30,808)	31,427

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 Group is exposed to the effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows.

While performing foreign exchange operations regional offices, local branch offices, the Operational Department, as well as the Foreign Currency Regulation and Control Department and Treasury continuously monitor the status of open currency position in order to fulfill the requirements of the legislation and local regulatory legal acts as well as for operational management of currency risk.

For control purposes in relation to the Bank's open currency position the limitations on the following indicators are imposed:

- values of the total open currency position;
- values of net open currency position for each foreign currency (except for bullions);
- values of net open currency position on forward transactions for each foreign currency (except for bullions).
- assessment of the Bank’s liquidity position to identify facts, negatively characterizing the liquidity management system.

Calculation of the standard open currency position is carried out in accordance with the regulations of the National Bank of the Republic of Belarus.

Based on the open currency position ratio set for the Bank as a whole, performance results of the Bank’s regional offices in the currency market, the Foreign Currency Regulation and Control Department sets limitations on the certain indicators of open currency position for regional offices, which can be reviewed in connection with their redistribution among regional offices, and changes in factors effecting the value of the currency risk. Limitations on the certain indicators of open currency position for local branch offices are set by regional offices independently in the framework of limitations set for them.

In order to minimize currency risk the Treasury establishes limits for foreign exchange transactions: limits on positions, limits on transactions and stop losses.

To control foreign currency risk, the Bank uses the calculation of VAR (Value-at-Risk). During stress-testing the cumulative effect of possible losses is assessed for the overall open currency position of the Bank in extreme market conditions resulted from sharp foreign currency rates fluctuations.

(in millions of Belarusian Rubles unless otherwise stated)

The Group's exposure to currency risk is presented in the table below:

	BYR	USD 1USD= BYR 3,000.00	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	1,058,409	1,344,811	32,587	22,577	727	2,459,111
Due from banks	5,503	117,091	197,684	31,077	566	351,921
Derivative financial instruments	8,663	-	-	-	-	8,663
Loans to customers	19,428,198	1,416,035	1,835,473	149,295	-	22,829,001
Investments in debt securities available for sale	1,573,027	-	-	-	-	1,573,027
Other financial assets	31,747	1,493	1,067	3	-	34,310
TOTAL FINANCIAL ASSETS	22,105,547	2,879,430	2,066,811	202,952	1,293	27,256,033
FINANCIAL LIABILITIES:						
Due to the National Bank of the Republic of Belarus	5,032,064	-	-	-	-	5,032,064
Due to banks	1,745,344	806,233	1,649,559	2,176	6	4,203,318
Derivative financial instruments	5	-	-	-	-	5
Customer accounts	7,777,766	1,477,027	906,903	206,263	46	10,368,005
Debt securities issued	1,075,446	1,019,010	101,933	16	-	2,196,405
Other financial liabilities	33,273	237	776	2	-	34,288
TOTAL FINANCIAL LIABILITIES	15,663,898	3,302,507	2,659,171	208,457	52	21,834,085
OPEN POSITION	6,441,649	(423,077)	(592,360)	(5,505)	1,241	

Derivative financial instruments

Fair value of the derivatives is included in the currency analysis presented above and the following table presents further analysis of currency risk for derivative financial instruments as at 31 December 2010:

	BYR	USD 1USD= BYR 3,000.00	EUR 1EUR= BYR 3,972.60	RUB 1RUB= BYR 98.44	Other currencies	31 December 2010 Total
Claims on forward contracts	-	51,000	97,329	22,441	-	170,770
Obligations on forward contracts	(42,986)	(107,440)	(11,918)	-	-	(162,344)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(42,986)	(56,440)	85,411	22,441	-	
TOTAL OPEN CURRENCY POSITION	6,398,663	(479,517)	(506,949)	16,936	1,241	

(in millions of Belarusian Rubles unless otherwise stated)

	BYR	USD 1USD= BYR 2,863.00	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	193,354	59,982	27,110	14,328	786	295,560
Due from banks	-	8,599	53,624	18,614	943	81,780
Derivative financial instruments	19,926	-	-	-	-	19,926
Loans to customers	14,611,223	1,139,142	1,657,778	81,595	-	17,489,738
Investments in debt securities available for sale	516,873	-	-	-	-	516,873
Other financial assets	5,107	2,027	487	1	-	7,622
TOTAL FINANCIAL ASSETS	15,346,483	1,209,750	1,738,999	114,538	1,729	18,411,499
FINANCIAL LIABILITIES:						
Due to the National Bank of the Republic of Belarus	2,554,477	-	-	-	-	2,554,477
Due to banks	1,737,526	609,776	1,307,354	859	29	3,655,544
Derivative financial instruments	326	-	-	-	-	326
Customer accounts	6,359,897	993,023	681,862	94,545	80	8,129,407
Debt securities issued	46,605	53,044	71,954	1,755	-	173,358
Other financial liabilities	25,955	7	1	2	-	25,965
TOTAL FINANCIAL LIABILITIES	10,724,786	1,655,850	2,061,171	97,161	109	14,539,077
OPEN POSITION	4,621,697	(446,100)	(322,172)	17,377	1,620	

Derivative financial instruments

Fair value of the derivatives is included in the currency analysis presented above and the following table presents further analysis of currency risk for derivative financial instruments as at 31 December 2009:

	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 forward contracts	-	71,001	55,432	-	-	126,433
Obligations on forward contracts	(84,014)	-	(11,743)	(16,909)	-	(112,666)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(84,014)	71,001	43,689	(16,909)	-	
TOTAL OPEN CURRENCY POSITION	4,537,683	(375,099)	(278,483)	468	1,620	

(in millions of Belarusian Rubles unless otherwise stated)

Currency risk sensitivity

The following table details the Group's sensitivity to an increase and decrease in the USD, EUR and RUB against the BYR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. At 31 December 2010 in connection with volatility in the financial market, as it is disclosed in Note 31, the management of the Group analyzed sensitivity to 15% increase and 10% decrease in rates of major foreign currencies used by the Group (US dollar, Euro and Russian Ruble). At 31 December 2009 the management of the Group analyzed sensitivity to 15% increase and 10% decrease in rates of major foreign currencies used by the Group (US dollar, Euro and Russian Ruble). 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	
	USD/BYR +15%	**USD/BYR -10%**	**USD/BYR +10%**	**USD/BYR -10%**
Impact on profit before taxation	(71,928)	47,952	(37,510)	37,510
Impact on equity	(53,025)	35,350	(27,652)	27,652
	EUR/BYR +15%	**EUR/BYR -10%**	**EUR/BYR +10%**	**EUR/BYR -10%**
Impact on profit before taxation	(76,042)	50,695	(27,848)	27,848
Impact on equity	(56,058)	37,372	(20,530)	20,530
	RUB/BYR +15%	**RUB/BYR -10%**	**RUB/BYR +10%**	**RUB/BYR -10%**
Impact on profit before taxation	2,540	(1,694)	47	(47)
Impact on equity	1,873	(1,249)	35	(35)

Limitations of sensitivity analysis

The above tables 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 results should not be interpolated or extrapolated.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In case of negative fluctuations of securities market, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas it can affect certain assets that are held at fair value in the statement of financial position. 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 Group'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.

31. OPERATING ENVIRONMENT

Operating environment - Although in recent years there has been general improvement in economic and legislative conditions in the Republic of Belarus, the country continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

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

Devaluation of national currency **-** Effective from 2 January 2009, the National Bank has pegged the Belarusian Ruble to a currency basket, divided equally into US dollars, Euro and Russian Belarusian Ruble weakened against the currency basket by 1.78% in 2010 and by 7.94% during the period of 2 January 2009 to 31 December 2009. Since 1 January 2011 till the date of approval of these consolidated financial statements for issue Belarusian Ruble weakened additionally against the currency basket by 7.62%

Inflation **-** Belarus is also 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 9.9% and 10.1%, respectively).

National Bank refinancing rate - As at 31 December 2010 and 2009 National Bank of the Republic of Belarus refinancing rate was 10.5% and 13.5%, respectively. On 16 March 2011 the National Bank of the Republic of Belarus increased the refinancing rate to 12.0%

Government debt **-** On 15 March 2011 Standard & Poor's Ratings Services decreased sovereign credit rating of the Republic of Belarus – from "B+" to "B" for foreign currency denominated long- term liabilities and from "BB" to "B+" for long-term local currency denominated liabilities. The outlook remains negative.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity and the increased volatility in the currency markets of the Republic of Belarus. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.