# CLOSED JOINT-STOCK COMPANY “ALFA-BANK”

**Financial Statements**
For the Year Ended 31 December 2010

# CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

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## CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

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

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2010 were authorized for issue on 22 March 2011 by the Chairman of the Management Board of the Bank.

**On behalf of the Management Board:**

| | |
|---|---|
| Chairman of the Management Board | Chief Financial Officer |
| D.A. Kalimov | A.V. Franev |
| 22 March 2011 | 22 March 2011 |
| Minsk | Minsk |

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Management Board of Closed Joint-Stock Company "Alfa-Bank":

We have audited the accompanying financial statements of Closed Joint-Stock Company "Alfa-Bank" ("the Bank") which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Closed Joint-Stock Company “Alfa-Bank” as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

We draw attention to Note 4 to the financial statements which describes the effect of restatements of the financial statements for the year ended 31 December 2009. Our opinion is not qualified in respect of this matter.

Deloitte & Touche

22 March 2011
Minsk

## CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

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

| | Notes | Year ended 31 December 2010 | Year ended 31 December 2009 (as restated, Note4) |
|---|---|---|---|
| Interest income | 5, 26 | 48,034 | 37,787 |
| Interest expense | 5, 26 | (34,789) | (18,399) |
| NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 13,245 | 19,388 |
| Provision for impairment losses on loans to customers | 6, 26 | (1,388) | (12,222) |
| Recoveries of assets previously written off | | 3,321 | 1,371 |
| NET INTEREST INCOME | | 15,178 | 8,537 |
| Net gain on foreign exchange operations | 7 | 15,580 | 26,665 |
| Net gain on derivative financial instruments | | 2,046 | 396 |
| Fee and commission income | 8, 26 | 21,979 | 14,089 |
| Fee and commission expense | 8, 26 | (2,274) | (1,848) |
| Net gain on investments available for sale | | 1,490 | 294 |
| (Other provisions)/recovery of other provisions | 6 | (3,290) | 1,160 |
| Other income | 9 | 7,600 | 995 |
| NET NON-INTEREST INCOME | | 43,131 | 41,751 |
| OPERATING INCOME | | 58,309 | 50,288 |
| OPERATING EXPENSES | 10, 26 | (49,879) | (42,508) |
| PROFIT BEFORE INCOME TAXES | | 8,430 | 7,780 |
| Income tax expense | 11 | (1,016) | (1,318) |
| NET PROFIT | | 7,414 | 6,462 |
| OTHER COMPREHENSIVE INCOME | | | |
| Net change in fair value of investments available for sale | | 540 | (7) |
| TOTAL COMPREHENSIVE INCOME | | 7,954 | 6,455 |

**On behalf of the Management Board:**

Chairman of the Management Board
D.A. Kalimov
22 March 2011
Minsk

Chief Financial Officer
A.V. Franev
22 March 2011
Minsk

The notes on pages 9-57 form an integral part of these financial statements.

# CLOSED JOINT-STOCK COMPANY “ALFA-BANK”

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2010
***(in millions of Belarusian Rubles)***

| | Notes | 31 December 2010 | 31 December 2009 (as restated, Note 4) | 1 January 2009 (as restated, Note 4) |
|---|---|---|---|---|
| ASSETS: | | | | |
| Cash | 12 | 28,341 | 29,165 | 18,979 |
| Balances with the National Bank | 12 | 17,927 | 65,056 | 9,889 |
| Due from banks and other financial institutions | 13, 26 | 58,199 | 100,248 | 90,124 |
| Loans to customers | 14, 26 | 432,743 | 238,473 | 155,735 |
| Investments available for sale | 15 | 157,563 | 56,583 | 11,633 |
| Property, equipment and intangible assets | 16 | 28,765 | 22,464 | 18,437 |
| Deferred income tax assets | 11 | - | 1,016 | 851 |
| Other assets | 17 | 12,415 | 3,817 | 2,960 |
| TOTAL ASSETS | | 735,953 | 516,822 | 308,608 |
| LIABILITIES AND EQUITY | | | | |
| LIABILITIES: | | | | |
| Due to the National Bank | 18 | 8,931 | - | - |
| Due to banks | 19, 26 | 175,672 | 9,168 | 13,652 |
| Customer accounts | 20, 26 | 371,606 | 392,666 | 255,776 |
| Debt securities issued | 21 | 76,670 | 29,267 | 677 |
| Current income tax liabilities | | - | 286 | 213 |
| Other liabilities | 22 | 4,348 | 2,823 | 4,693 |
| Subordinated debt | 23 | 36,119 | 27,959 | 968 |
| Total liabilities | | 673,346 | 462,169 | 275,979 |
| EQUITY: | | | | |
| Share capital | 24 | 76,205 | 76,205 | 52,765 |
| Investments available for sale revaluation reserve | | 533 | (7) | - |
| Accumulated deficit | | (14,131) | (21,545) | (20,136) |
| Total equity | | 62,607 | 54,653 | 32,629 |
| TOTAL LIABILITIES AND EQUITY | | 735,953 | 516,822 | 308,608 |

**On behalf of the Management Board:**

Chairman of the Management Board
D.A. Kalimov
22 March 2011
Minsk

Chief Financial Officer
A.V. Franev
22 March 2011
Minsk

The notes on pages 9-57 form an integral part of these financial statements.

## CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

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

| | Notes | Share capital | Investments available for sale revaluation reserve | Accumulated deficit | Total equity |
|---|---|---|---|---|---|
| **1 January 2009 (as previously reported)** | | 52,765 | - | (16,025) | 36,740 |
| Restatement effect | 4 | - | - | (4,111) | (4,111) |
| **1 January 2009 (as restated, Note 4)** | | 52,765 | - | (20,136) | 32,629 |
| Capitalization of statutory reserves | 24 | 7,871 | - | (7,871) | - |
| New share issue | 24 | 15,569 | - | - | 15,569 |
| Total comprehensive income for the year (restated) | | - | (7) | 6,462 | 6,455 |
| **31 December 2009 (as restated, Note 4)** | | 76,205 | (7) | (21,545) | 54,653 |
| Total comprehensive income for the year | | - | 540 | 7,414 | 7,954 |
| **31 December 2010** | | 76,205 | 533 | (14,131) | 62,607 |

**On behalf of the Management Board:**

Chairman of the Management Board
D.A. Kalimov
22 March 2011
Minsk

Chief Financial Officer
A.V. Franev
22 March 2011
Minsk

The notes on pages 9-57 form an integral part of these financial statements.

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

| | Notes | Year ended 31 December 2010 | Year ended 31 December 2009 (as restated, Note 4) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income taxes | | 8,430 | 7,780 |
| Adjustments for: | | | |
| Provision for impairment losses on loans to customers | | 1,388 | 12,222 |
| Other provisions/(recovery of other provisions) | | 3,290 | (1,160) |
| Translation differences, net | | 5,478 | (2,642) |
| Depreciation and amortization | | 2,432 | 1,917 |
| Net gain on disposal of property, equipment, intangible and other non-financial assets | | (2,388) | 61 |
| Net change in fair value of derivative financial instruments | | (2,146) | (399) |
| Change in accrued commission and other income | | (3,742) | 648 |
| Change in interest accruals, net | | (177) | (2,405) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 12,565 | 16,022 |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Minimum reserve deposit with the National Bank | | 5,249 | (2,375) |
| Due from banks and other financial institutions | | 320 | 82,941 |
| Loans to customers | | (197,059) | (44,020) |
| Other assets | | (4,467) | 1,597 |
| Increase/(decrease) in operating liabilities: | | | |
| Due to banks | | 168,932 | (19,571) |
| Due to National Bank | | 8,251 | - |
| Customer accounts | | (24,016) | 63,576 |
| Other liabilities | | 2,164 | (4,445) |
| Cash (outflow)/inflow from operating activities before taxation | | (28,061) | 93,725 |
| Income taxes paid | | (286) | (1,410) |
| Net cash (outflow)/inflow from operating activities | | (28,347) | 92,315 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, equipment and intangible assets | | (10,021) | (6,015) |
| Finance lease repayment | | (227) | (186) |
| Proceeds on sale of property, equipment, intangible and other non-financial assets | | 3,745 | 310 |
| Purchase of investments available for sale | | (351,481) | (98,455) |
| Sale and redemption of investments available for sale | | 252,687 | 55,724 |
| Net cash outflow from investing activities | | (105,297) | (48,622) |

The notes on pages 9-57 form an integral part of these financial statements.

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

| | Notes | Year ended 31 December 2010 | Year ended 31 December 2009 (as restated, Note 4) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds on issue of debt securities | | 90,103 | 29,047 |
| Redemption of debt securities | | (44,631) | (849) |
| Subordinated debt received | | 8,881 | 24,101 |
| Proceeds on issue of shares | | - | 15,569 |
| Net cash inflow from financing activities | | 54,353 | 67,868 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (79,291) | 111,561 |
| Effect of changes in foreign exchange rates on cash and cash equivalents | | (2,622) | 18,027 |
| CASH AND CASH EQUIVALENTS, beginning of year | 12 | 180,167 | 50,579 |
| CASH AND CASH EQUIVALENTS, end of year | 12 | 98,254 | 180,167 |

Interest paid and received by the Bank during the year ended 31 December 2010 amounted to BYR 33,471 million and BYR 46,539 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2009 amounted to BYR 18,212 million and BYR 35,195 million, respectively.

**On behalf of the Management Board:**

Chairman of the Management Board
D.A. Kalimov
22 March 2011
Minsk

Chief Financial Officer
A.V. Franev
22 March 2011
Minsk

The notes on pages 9-57 form an integral part of these financial statements.

## 1. ORGANIZATION

Closed Joint Stock-Company "Alfa-Bank" (former title "International Trade and Investment Bank") (the "Bank") was registered by the National Bank of the Republic of Belarus (the "National Bank") on 28 January 1999 as a closed joint-stock company with foreign capital participation. In July 2008 the Bank was acquired by the consortium Alfa-Group as a result of which the Bank registered a new name – Closed Joint Stock-Company "Alfa-Bank".

The Bank's registered office is located at 70 Miasnikova Str., Minsk, Republic of Belarus.

The Bank conducts its business under the license for performing banking operations # 22 issued on 13 November 2008. The Bank also has the License of the State Committee on Securities of the Republic of Belarus for intermediary, commercial and consulting activities on securities market of the Republic of Belarus.

The Bank's primary areas of operations include transferring payments, lending, foreign currency operations upon demand of its customers and on interbank market. The license allows the Bank to maintain accounts and attract term deposits from individuals and corporate customers. As at 31 December 2010 the Bank had 13 banking service offices in the Republic of Belarus (2009:14).

The average number of employees of the Bank during 2010 and 2009 was 602 and 548 respectively.

As at 31 December 2010 and 2009 the following shareholders owned the issued shares of the Bank:

| | **31 December 2010, %** | **31 December 2009, %** |
|---|---|---|
| ABH Belarus Limited, Cyprus | 93.8 | 93.8 |
| Vikash Investments Limited, Great Britain | 4.9 | 4.9 |
| Republican Unitary Enterprise "Byelorussian Steel works", Belarus | 1.0 | 1.0 |
| Individuals | 0.3 | 0.3 |
| **Total** | 100.0 | 100.0 |

The ultimate controlling parties of the Bank as at 31 December 2010 and 2009 were the owners of the consortium Alfa-Group Michail Maratovich Fridman, German Borisovich Khan and Aleksei Viktorovich Kuzmichev (citizens of the Russian Federation).

These financial statements were authorized for issue by the Management of the Bank on 22 March 2011.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

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

### Other basis of presentation criteria

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

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

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

The Bank maintains its accounting records in accordance with the legislation of the Republic of Belarus. These financial statements have been prepared from the Belarusian statutory accounting records and have been adjusted to conform to IFRS. 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 presents its statement of financial position broadly in order of liquidity. The analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 29.

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

The principal accounting policies are set out below.

**Recognition of interest income and expense**

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

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

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

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

**Recognition of income on repurchase and reverse repurchase agreements**

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

**Recognition of revenue – other**

***Recognition of fee and commission income***

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

**Financial instruments**

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

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

**Financial assets**

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

***Cash and cash equivalents***

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

***Available-for-sale financial assets***

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

Unlisted shares and bonds classified as available-for-sale that are not traded in an active market are stated at fair value. Fair value is determined in the manner described in Note 27. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

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

***Derivative financial instruments***

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in Note17.

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

### *Loans and receivables*

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

### *Repurchase and reverse repurchase agreements*

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

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

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

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

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

### *Impairment of financial assets*

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

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

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

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

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

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

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

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

***Renegotiated loans***

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

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

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

***Write off of loans***

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

***Derecognition of financial assets***

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the 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 Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

**Financial liabilities and equity instruments issued**

***Classification as debt or equity***

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

***Equity instruments***

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

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

***Financial liabilities***

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

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

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

***Derecognition of financial liabilities***

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

***Financial guarantee contracts***

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

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

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

## Leases

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

### *The Bank as lessor*

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

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

### *The Bank as lessee*

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

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

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

## Property and equipment

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

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

| | |
|---|---|
| Buildings | 2-10% |
| Furniture and equipment | 12.5-25% |
| Intangible assets | 10-50% |

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

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

## Intangible assets

### *Intangible assets acquired separately*

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

### *Derecognition of intangible assets*

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

### *Impairment of tangible and intangible assets*

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

## Taxation

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

### *Current tax*

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

### *Deferred tax*

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

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

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

*Current and deferred tax for the year*

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

*Operating taxes*

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

**Provisions**

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

**Contingencies**

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

**Functional currency**

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

**Foreign currencies**

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

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

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

**Collateral**

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

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

***Key sources of estimation uncertainty***

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

***Impairment of loans and receivables***

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

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

*Provisions for financial guarantees and other contingent liabilities*

Provisions for financial guarantees and other contingent liabilities are measured in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, that requires application of management estimation and judgment.

*Measurement of derivative financial instruments fair value*

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

*Useful lives of property and equipment*

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

*New and revised IFRSs used by the Bank*

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

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

*New and revised IFRSs in issue but not yet effective*

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

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

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

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

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

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

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

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

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

IAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Bank because the Bank is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the standard.

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

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

## 4. RESTATEMENTS AND RECLASSIFICATIONS

Subsequent to the issuance of the Bank's financial statements as at 31 December 2009 and for the year then ended, the management determined the following:

- The Bank's management identified a misstatement in the historical cost of property and equipment acquired before 31 December 2005 as recalculated for hyperinflation effect.
- The Bank's management concluded that net presentation of claims and obligations on operations of foreign currency exchange transactions is not in accordance with IFRS as these amounts relate to different counterparties.
- The Bank had omitted from its "Cash and cash equivalents" certain unrestricted correspondent bank accounts.

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

| | As previously reported | Amount of adjustment | As restated |
|---|---|---|---|
| **Statement of financial position** | | | |
| Property, equipment and intangible assets as at 1 January 2009 | 22,548 | (4,111) | 18,437 |
| Property, equipment and intangible assets as at 31 December 2009 | 26,138 | (3,674) | 22,464 |
| Accumulated deficit as at 1 January 2009 | (16,025) | (4,111) | (20,136) |
| Accumulated deficit as at 31 December 2009 | (17,871) | (3,674) | (21,545) |
| Due from banks and other financial institutions as at 31 December 2009 | 93,675 | 6,573 | 100,248 |
| Customer accounts as at 31 December 2009 | 386,093 | 6,573 | 392,666 |
| **Statement of comprehensive income** | | | |
| Other income for the year ended 31 December 2009 | 1,058 | (63) | 995 |
| Operating expenses for the year ended 31 December 2009 | (43,008) | 500 | (42,508) |
| **Statement of cash flows** | | | |
| Cash and cash equivalents as at 1 January 2009 | 48,459 | 2,120 | 50,579 |
| Cash and cash equivalents as at 31 December 2009 | 169,804 | 10,363 | 180,167 |
| Decrease in due from banks and other financial institutions for the year ended 31 December 2009 | 74,698 | 8,243 | 82,941 |
| Net cash inflow from operating activities for the year ended 31 December 2009 | 84,001 | 8,314 | 92,315 |

## 5. NET INTEREST INCOME

Net interest income comprises:

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| **Interest income comprises:** | | |
| Interest income on financial instruments recorded at amortized cost: | | |
| - interest income on financial assets individually determined to be impaired | 26,535 | 25,298 |
| - interest income on financial assets collectively determined to be impaired | 5,510 | 6,342 |
| - interest income on unimpaired financial assets | 5,503 | 3,378 |
| Interest income on financial instruments at fair value | 10,486 | 2,769 |
| **Total interest income** | 48,034 | 37,787 |
| Interest income on financial instruments recorded at amortized cost comprises: | | |
| Interest on loans to customers | 35,894 | 32,458 |
| Interest on due from banks | 1,654 | 2,560 |
| Total interest income on financial instruments recorded at amortized cost | 37,548 | 35,018 |
| Interest income on financial instruments at fair value comprises: | | |
| Interest on investments available for sale | 10,486 | 2,769 |
| Total interest income on financial instruments at fair value | 10,486 | 2,769 |
| **Interest expense comprises:** | | |
| Interest expense on financial instruments recorded at amortized cost | (34,789) | (18,399) |
| **Total interest expense** | (34,789) | (18,399) |
| Interest expense on financial instruments recorded at amortized cost comprises: | | |
| Interest on customer accounts | (26,101) | (13,567) |
| Interest on debt securities issued | (3,343) | (808) |
| Interest on due to banks | (3,048) | (2,276) |
| Interest on subordinated debt | (2,253) | (1,576) |
| Interest on loans received from the National Bank | (44) | (172) |
| Total interest expense on financial instruments recorded at amortized cost | (34,789) | (18,399) |
| **Net interest income before provision for impairment losses on interest bearing assets** | 13,245 | 19,388 |

## 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 |
|---|---|---|---|
| **1 January 2009** | 12,711 | - | 12,711 |
| Provision | 12,222 | - | 12,222 |
| Write-off of assets | (5,480) | - | (5,480) |
| **31 December 2009** | 19,453 | - | 19,453 |
| Provision | 1,205 | 183 | 1,388 |
| Write-off of assets | (3,850) | - | (3,850) |
| **31 December 2010** | 16,808 | 183 | 16,991 |

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

| | Guarantees and other commitments | Other assets | Total |
|---|---|---|---|
| **1 January 2009** | 1,497 | 191 | 1,688 |
| (Recovery of provision)/provision | (1,182) | 22 | (1,160) |
| **31 December 2009** | 315 | 213 | 528 |
| Provision | 982 | 2,308 | 3,290 |
| **31 December 2010** | 1,297 | 2,521 | 3,818 |

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

## 7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Dealing, net | 21,058 | 24,023 |
| Translation differences, net | (5,478) | 2,642 |
| **Total net gain on foreign exchange operations** | 15,580 | 26,665 |

## 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** | | |
| Settlements and clients service | 11,178 | 7,025 |
| Agent commission on syndicated loans | 5,330 | 13 |
| Foreign exchange operations | 5,227 | 6,596 |
| Securities operations | 241 | 9 |
| Other | 3 | 446 |
| **Total fee and commission income** | 21,979 | 14,089 |
| **Fee and commission expense** | | |
| Correspondent bank services | 1,841 | 1,547 |
| Foreign exchange operations | 339 | 246 |
| Other | 94 | 55 |
| **Total fee and commission expense** | 2,274 | 1,848 |

## 9. OTHER INCOME

Other income comprises:

| | Year ended 31 December 2010 | Year ended 31 December 2009 (as restated, Note 4) |
|---|---|---|
| Fines and penalties | 3,159 | 279 |
| Net gain on disposal of property, equipment, intangible and other non-financial assets | 2,388 | - |
| Operating lease payments | 90 | 81 |
| Other | 1,963 | 635 |
| **Total other income** | 7,600 | 995 |

## 10. OPERATING EXPENSES

Operating expenses comprise:

| | Year ended 31 December 2010 | Year ended 31 December 2009 (as restated, Note 4) |
|---|---|---|
| Staff costs | 21,145 | 18,787 |
| Property rentals and equipment maintenance | 5,976 | 4,094 |
| Social security contribution | 5,954 | 4,796 |
| Depreciation and amortization | 2,432 | 1,917 |
| Contributions to deposits protection fund | 2,322 | 940 |
| Charity | 1,566 | 2,133 |
| Advertising | 1,494 | 1,292 |
| Interbank settlements fees | 1,142 | 667 |
| Security expenses | 965 | 697 |
| Communications | 802 | 637 |
| Professional services | 792 | 724 |
| Software development and maintenance expense | 778 | 463 |
| Transport expenses | 635 | 503 |
| Taxes, other than income taxes | 575 | 1,126 |
| Office expenses | 401 | 1,115 |
| Loss on disposal of property, equipment and intangible assets | - | 61 |
| Other expenses | 2,900 | 2,556 |
| **Total operating expenses** | 49,879 | 42,508 |

## 11. INCOME TAXES

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

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

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

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

Starting from 1 January 2011 3% municipal tax is no longer withheld, and deferred taxes as at 31/12/2010 were calculated using 24% tax rate.

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

| | 31 December 2010 | 31 December 2009 (as restated, Note 4) |
|---|---|---|
| **Deductible temporary differences:** | | |
| Loans to customers | 10,446 | 10,398 |
| Property, equipment and intangible assets | 23,895 | 10,704 |
| Other assets | 2,568 | 3,184 |
| Materials, low value items and prepaid expenses written off | 1,811 | 1,507 |
| Other liabilities | 927 | 812 |
| Provisions for losses on guarantees and other commitments | 684 | 10 |
| Other deductible | - | 2,213 |
| **Total deductible temporary differences** | 40,331 | 28,828 |
| **Taxable temporary differences:** | | |
| Derivative financial instruments | 4,054 | 35 |
| Accrued interest income | - | 7,097 |
| Other taxable | 579 | 95 |
| **Total taxable temporary differences** | 4,633 | 7,227 |
| **Net deductible temporary differences** | 35,698 | 21,601 |
| Net deferred tax asset at statutory tax rate | 8,568 | 5,677 |
| Less deferred tax assets not recognized | (8,568) | (4,661) |
| **Net deferred tax asset** | - | 1,016 |

The Bank did not recognize deferred tax assets as at 31 December 2010 as future taxable profits are estimated to be insufficient for their realization due to significant amounts of tax-exempt income.

Relationships between tax expenses and accounting profit for the years ended 31 December 2010 and 2009 are explained as follows:

| | Year ended 31 December 2010 | Year ended 31 December 2009 as restated, Note 4) |
|---|---|---|
| Profit before income taxes | 8,430 | 7,780 |
| Combined statutory tax rate | 26.28% | 26.28% |
| Tax at statutory tax rate | 2,215 | 2,045 |
| Tax effect of permanent differences | (4,387) | (125) |
| Effect of change in tax base of property, equipment and intangible assets due to revaluation performed under Belarusian statutory accounting rules | (1,533) | (431) |
| Change in deferred tax assets not recognized | 3,907 | (171) |
| Tax effect of change in income tax rates | 814 | - |
| **Income tax expense** | 1,016 | 1,318 |

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Current income tax expense | - | 1,483 |
| Deferred income tax expense/(credit) | 1,016 | (165) |
| **Total income tax expense** | 1,016 | 1,318 |

The movements in the amount of not recognized deferred tax assets were as follows:

| | Year ended 31 December 2010 | Year ended 31 December 2009 |
|---|---|---|
| Deferred tax assets not recognized at beginning of the period | 4,661 | 4,832 |
| Change in deferred tax assets not recognized | 3,907 | (171) |
| **Deferred tax assets not recognized at end of the period** | 8,568 | 4,661 |

## 12. CASH AND BALANCES WITH THE NATIONAL BANK

Cash and balances with the National Bank comprise:

| | 31 December 2010 | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| Cash | 28,341 | 29,165 | 18,979 |
| Balances with the National Bank | 17,927 | 65,056 | 9,889 |
| **Total cash and balances with the National Bank** | 46,268 | 94,221 | 28,868 |

The balances with the National Bank as at 31 December 2010 and 2009 and 1 January 2009 included BYR 2,368 million, BYR 7,617 million and BYR 5,242 million, respectively, which represented the obligatory minimum reserve deposits with the National Bank. The Bank is required to maintain the reserve balance at the National Bank at all times.

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

| | 31 December 2010 | 31 December 2009 (as restated, Note 4) | 1 January 2009 (as restated, Note 4) |
|---|---|---|---|
| Cash and balances with the National Bank | 46,268 | 94,221 | 28,868 |
| Due from banks and other financial institutions with original maturity within 90 days | 54,354 | 93,563 | 26,953 |
| | 100,622 | 187,784 | 55,821 |
| Less minimum reserve deposits with the National Bank | (2,368) | (7,617) | (5,242) |
| **Total cash and cash equivalents** | 98,254 | 180,167 | 50,579 |

## 13. DUE FROM BANKS

Due from banks comprise:

| | 31 December 2010 | 31 December 2009 (as restated, Note 4) | 1 January 2009 |
|---|---|---|---|
| Correspondent accounts with banks | 28,364 | 93,664 | 78,392 |
| Loans and term deposits with banks | 19,502 | 11 | - |
| Settlements with Belarusian Currency and Stock Exchange | 10,333 | 6,573 | 1,000 |
| Loans under reverse repurchase agreements | - | - | 10,732 |
| **Total due from banks** | 58,199 | 100,248 | 90,124 |

As at 31 December 2010 the Bank had amounts due from 2 banks totalling BYR 35,430 million, which individually exceeded 10% of the Bank's equity and represented significant concentration.

As at 31 December 2009 the Bank had amounts due from 3 banks totalling BYR 76,763 million, which individually exceeded 10% of the Bank's equity and represented significant concentration.

As at 1 January 2009 the Bank had amounts due from 3 banks totalling BYR 83,238 million, which individually exceeded 10% of the Bank's equity and represented significant concentration.

As at 1 January 2009 loans under reverse repurchase agreements were placed with Belarusian banks and secured by long-term government bonds with fair value of BYR 10,732 million.

As at 31 December 2010 and 2009 and 1 January 2009 included in balances due from banks are guarantee deposits placed by the Bank for guarantees and letters of credit in the amount of BYR 3,842 million, BYR 6,674 million and BYR 52,420 million, respectively.

## 14. LOANS TO CUSTOMERS

Loans to customers comprise:

| | 31 December 2010 | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| Originated loans | 447,038 | 257,273 | 167,636 |
| Net investment in finance leases | 2,513 | 653 | 810 |
| | 449,551 | 257,926 | 168,446 |
| Less allowance for impairment losses | (16,808) | (19,453) | (12,711) |
| **Total loans to customers** | 432,743 | 238,473 | 155,735 |

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

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

| | **31 December 2010** | **31 December 2009** | **1 January 2009** |
|---|---|---|---|
| Loans collateralized by equipment and goods in turnover | 225,553 | 82,419 | 71,201 |
| Loans collateralized by liens over assets and receivables | 76,760 | 58,841 | 1,162 |
| Loans collateralized by real estate | 67,988 | 58,988 | 44,488 |
| Loans collateralized by cars | 19,630 | 32,455 | 39,634 |
| Uncollateralized loans | 8,456 | 6,474 | 360 |
| Loans collateralized by cash | 2,099 | 614 | 722 |
| Loans collateralized by other types of collateral | 49,065 | 18,135 | 10,879 |
| | 449,551 | 257,926 | 168,446 |
| Less allowance for impairment losses | (16,808) | (19,453) | (12,711) |
| **Total loans to customers** | 432,743 | 238,473 | 155,735 |

The table below provides analysis of loans by sector of economy:

| | **31 December 2010** | **31 December 2009** | **1 January 2009** |
|---|---|---|---|
| Trade | 162,724 | 67,513 | 35,890 |
| Manufacturing | 157,396 | 65,820 | 43,722 |
| Oil refining and energy | 84,638 | 73,889 | 13,515 |
| Individuals | 26,979 | 43,059 | 55,476 |
| Leasing companies | 5,960 | 1,745 | 3,110 |
| Construction | 5,769 | 1,717 | 1,777 |
| Transport and communications | 5,375 | 797 | 764 |
| Other | 710 | 3,386 | 14,192 |
| | 449,551 | 257,926 | 168,446 |
| Less allowance for impairment losses | (16,808) | (19,453) | (12,711) |
| **Total loans to customers** | 432,743 | 238,473 | 155,735 |

The Bank receives assets by taking possession of collateral it holds as security on default loans. As at 31 December 2010 and 2009 and 1 January 2009 assets received due to repossession of collateral in amount of BYR 3,070 million, BYR 231 million and BYR 286 million respectively are included in other assets (Note 17).

Loans to individuals comprise the following products:

| | 31 December 2010 | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| Car loans | 16,225 | 29,945 | 39,634 |
| Mortgage loans | 4,378 | 6,984 | 6,749 |
| Overdrafts | 3,348 | 683 | 4,429 |
| Consumer loans | 3,028 | 5,447 | 4,664 |
| | 26,979 | 43,059 | 55,476 |
| Less allowance for impairment losses | (2,445) | (4,186) | (2,790) |
| **Total loans to individuals** | 24,534 | 38,873 | 52,686 |

As at 31 December 2010 the Bank granted loans to 21 customers, totalling BYR 298,242 million, which individually exceeded 10% of the Bank's equity and represented significant concentration.

As at 31 December 2009 the Bank granted loans to 8 customers, totalling BYR 111,708 million, which individually exceeded 10% of the Bank's equity and represented significant concentration.

As at 1 January 2009 the Bank granted loans to 6 customers, totalling BYR 52,583 million, which individually exceeded 10% of the Bank's equity and represented significant concentration.

As at 31 December 2010 included in loans to customers were loans to OJSC "Naftan", OJSC "Beltransgaz", RUE "BMZ" and RUE "Gomselmash" totalling BYR 29,767 million, BYR 28,061 million, BYR 22,708 million and BYR 21,766 million, respectively, which comprised 7%, 6%, 5% and 5% of the Bank's loan portfolio.

As at 31 December 2009 included in loans to customers were loans to OJSC "Naftan", "Minskenergo" and OJSC "Beltransgaz" totalling BYR 14,599 million, BYR 24,448 million and BYR 24,336 million, respectively, which comprised 6%, 9% and 9% of the Bank's loan portfolio.

As at 1 January 2009 included in loans to customers were loans to OJSC "Naftan" totalling BYR 13,515 million, which comprised 8% of the Bank's loan portfolio.

As at 31 December 2010 and 2009 and 1 January 2009 the Bank had a loan to OJSC "Naftan" in the amount of BYR 14,700 million, BYR 14,029 million and BYR 10,812 million, respectively, that was issued from funds provided by the National Bank. In accordance with the agreement with the National Bank the Bank's liabilities on the loan including interest repayment arise only after respective payments from OJSC "Naftan" are received. Accordingly, the assets and liabilities on this agreement were offset in these financial statements.

As at 31 December 2010 the Bank had syndicated loans granted to three customers. The loans were issued partly from the Bank's funds and partly from the funds of counterparty banks as detailed in the table below.

| Borrower | Counterparty banks | Share of funds provided by counterparty banks | Share of funds provided by the Bank | Total syndicated loan amount, BYR million |
|---|---|---|---|---|
| OJSC "Naftan" | N.V. "Amsterdam Trade Bank" | 599/600 | 1/600 | 238,601 |
| OJSC "Naftan" | OJSC "Alfa Bank" (Russia) | 34/35 | 1/35 | 120,127 |
| OJSC "Beltransgaz" | N.V. "Amsterdam Trade Bank" | 99/100 | 1/100 | 90,086 |
| OJSC "Mozyrski NPZ" | N.V. "Amsterdam Trade Bank" | 599/600 | 1/600 | 10,311 |

As at 31 December 2009 the Bank had syndicated loans granted to three customers. The loans were issued partly from the Bank's funds and partly from the funds of counterparty banks as detailed in the table below.

| Borrower | Counterparty banks | Share of funds provided by counterparty banks | Share of funds provided by the Bank | Total syndicated loan amount, BYR million |
|---|---|---|---|---|
| OJSC "Naftan" | OJSC "Alfa Bank (Russia)" | 29/30 | 1/30 | 87,308 |
| OJSC "Beltransgaz" | N.V. "Amsterdam Trade Bank" | 19/20 | 1/20 | 28,649 |
| LLC "Interservis" | OJSC "Paritetbank", CJSC "Absolutbank" and CJSC "RRB-Bank" | 19/20 | 1/20 | 16,462 |

In accordance with the terms of agreements with the counterparty banks the Bank's liability to repay the funds provided by counterparty banks including interest repayment arise only after respective payments from the borrowers are received. Accordingly, the part of the syndicated loans assets to the extent of the share of funds provided by counterparty banks were offset with respective liabilities in these financial statements.

N.V. "Amsterdam Trade Bank" and OJSC "Alfa Bank" (Russia) are related parties of the Bank.

As at 31 December 2010 and 2009 and 1 January 2009 all loans are granted to companies operating in the Republic of Belarus, which represents a significant geographical concentration in one region.

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

| | 31 December 2010 | | |
|---|---|---|---|
| | **Loans before allowance for impairment losses** | **Allowance for impairment losses** | **Loans less allowance for impairment losses** |
| Loans to customers individually determined to be impaired | 315,124 | (13,589) | 301,535 |
| Loans to customers collectively determined to be impaired | 48,487 | (3,219) | 45,268 |
| Unimpaired loans | 85,940 | - | 85,940 |
| **Total loans to customers** | 449,551 | (16,808) | 432,743 |

| | 31 December 2009 | | |
|---|---|---|---|
| | **Loans before allowance for impairment losses** | **Allowance for impairment losses** | **Loans less allowance for impairment losses** |
| Loans to customers individually determined to be impaired | 200,545 | (14,676) | 185,869 |
| Loans to customers collectively determined to be impaired | 51,373 | (4,777) | 46,596 |
| Unimpaired loans | 6,008 | - | 6,008 |
| **Total loans to customers** | 257,926 | (19,453) | 238,473 |

| | 1 January 2009 | | |
|---|---|---|---|
| | **Loans before allowance for impairment losses** | **Allowance for impairment losses** | **Loans less allowance for impairment losses** |
| Loans to customers individually determined to be impaired | 93,675 | (8,739) | 84,936 |
| Loans to customers collectively determined to be impaired | 70,136 | (3,972) | 66,164 |
| Unimpaired loans | 4,635 | - | 4,635 |
| **Total loans to customers** | 168,446 | (12,711) | 155,735 |

The components of net investment in finance lease as at 31 December 2010 and 2009 and 1 January 2009 are as follows:

| | **31 December 2010** | **31 December 2009** | **1 January 2009** |
|---|---|---|---|
| Less than one year | 2,704 | 653 | 640 |
| From one year to five years | 60 | 57 | 285 |
| Minimum lease payments | 2,764 | 710 | 925 |
| Less: unearned finance income | (251) | (57) | (115) |
| Net investment in finance lease | 2,513 | 653 | 810 |
| Current portion | 2,456 | 601 | 550 |
| Long-term portion | 57 | 52 | 260 |
| **Net investment in finance lease** | 2,513 | 653 | 810 |

## 15. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

| | Currency | Interest to nominal | 31 December 2010 |
|---|---|---|---|
| Bonds issued by Belarusian banks | USD | 8.5-9.95% | 36,879 |
| Bonds issued by Belarusian banks | BYR | 11-15% | 25,688 |
| Bonds of Belarusian companies | BYR | 12-12.5% | 34,719 |
| Bonds of Belarusian companies | USD | 9.5-12% | 22,384 |
| Bonds of a Russian company | USD | 9.75% | 1,497 |
| Government Eurobonds | USD | 8.75% | 31,560 |
| Bonds issued by the Minsk City Executive Committee | BYR | 11.50% | 5,000 |
| Shares issued by a Russian company | RUB | - | 19 |
| | | | 157,746 |
| Less allowance for impairment losses | | | (183) |
| **Total investments available for sale** | | | 157,563 |

| | Currency | Interest to nominal | 31 December 2009 |
|---|---|---|---|
| Bonds issued by Belarusian banks | EUR | 9-11% | 34,714 |
| Bonds issued by Belarusian banks | USD | 9-10.25% | 19,004 |
| Bonds issued by Belarusian banks | BYR | 19.5-21.87% | 2,846 |
| Shares issued by a Russian company | RUB | - | 19 |
| **Total investments available for sale** | | | 56,583 |

| | Currency | Interest to nominal | 1 January 2009 |
|---|---|---|---|
| Bonds issued by Belarusian banks | BYR | 12-13.5% | 9,786 |
| Corporate bonds | BYR | 13% | 1,847 |
| **Total investments available for sale** | | | 11,633 |

## 16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

| | Buildings | Furniture and equipment | Construction in progress | Intangible assets | Total |
|---|---|---|---|---|---|
| **Cost/cost restated for hyperinflation** | | | | | |
| 1 January 2009 (as restated, Note 4) | 11,159 | 12,297 | 584 | 2,894 | 26,934 |
| Additions (as restated, Note 4) | - | - | 5,004 | 1,311 | 6,315 |
| Transfer (as restated, Note 4) | 170 | 2,005 | (2,179) | 4 | - |
| Disposals (as restated, Note 4) | (373) | (364) | - | (116) | (853) |
| 31 December 2009 (as restated, Note 4) | 10,956 | 13,938 | 3,409 | 4,093 | 32,396 |
| Additions | - | - | 7,619 | 2,471 | 10,090 |
| Transfer | 179 | 8,406 | (8,990) | 405 | - |
| Disposals | (1,347) | (446) | (38) | (421) | (2,252) |
| 31 December 2010 | 9,788 | 21,898 | 2,000 | 6,548 | 40,234 |
| **Accumulated depreciation** | | | | | |
| 1 January 2009 (as restated, Note 4) | 863 | 5,743 | - | 1,891 | 8,497 |
| Charge for the period (as restated, Note 4) | 215 | 1,397 | - | 305 | 1,917 |
| Disposals (as restated, Note 4) | (169) | (197) | - | (116) | (482) |
| 31 December 2009 (as restated, Note 4) | 909 | 6,943 | - | 2,080 | 9,932 |
| Charge for the period | 184 | 1,849 | - | 399 | 2,432 |
| Disposals | (221) | (267) | - | (407) | (895) |
| 31 December 2010 | 872 | 8,525 | - | 2,072 | 11,469 |
| **Net book value** | | | | | |
| 31 December 2010 | 8,916 | 13,373 | 2,000 | 4,476 | 28,765 |
| 31 December 2009 (as restated, Note 4) | 10,047 | 6,995 | 3,409 | 2,013 | 22,464 |
| 1 January 2009 (as restated, Note 4) | 10,296 | 6,554 | 584 | 1,003 | 18,437 |

As at 31 December 2010 and 2009 and 1 January 2009 the carrying amount of property, equipment and intangible assets includes BYR 105 million, BYR 266 million and BYR 598 million, respectively, of equipment held under finance lease agreements.

## 17. OTHER ASSETS

Other assets comprise:

| | 31 December 2010 | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| **Other financial assets:** | | | |
| Accrued commission and other income | 4,008 | 266 | 914 |
| Derivative financial assets | 2,821 | 229 | 15 |
| Settlements on other banking operations | 1,226 | 859 | 644 |
| Other debtors | 564 | 669 | 669 |
| Less allowance for impairment losses | (2,521) | (213) | (191) |
| **Total other financial assets** | 6,098 | 1,810 | 2,051 |
| **Other non-financial assets:** | | | |
| Assets acquired through repossession of collateral | 3,070 | 231 | 286 |
| Taxes prepaid other than income taxes | 2,383 | 1,192 | 547 |
| Prepaid expenses | 493 | 155 | 44 |
| Prepayments for property and equipment | 371 | 429 | 32 |
| **Total other assets** | 12,415 | 3,817 | 2,960 |

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

As at 31 December 2010 derivative financial instruments comprised:

| Foreign currency forward contracts | Nominal amount (in units of currency to be purchased) | Fair Value Asset | Fair Value Liability (Note 22) |
|---|---|---|---|
| USD/BYR | USD 45,305,853 | 2,821 | (701) |
| EUR/USD | EUR 7,550,000 | - | (9) |
| **Total derivative financial instruments** | | 2,821 | (710) |

As at 31 December 2009 derivative financial instruments comprised:

| Foreign currency forward contracts | Nominal amount (in units of currency to be purchased) | Fair Value Asset | Fair Value Liability (Note 22) |
|---|---|---|---|
| USD/EUR | USD 14,345,000 | 9 | - |
| EUR/USD | EUR 4,500,000 | 220 | (264) |
| **Total derivative financial instruments** | | 229 | (264) |

As at 1 January 2009 derivative financial instruments comprised:

| Foreign currency forward contracts | Nominal amount (in units of currency to be purchased) | Fair Value Asset | Fair Value Liability (Note 22) |
|---|---|---|---|
| USD/EUR | USD 566,000 | 15 | - |
| EUR/USD | EUR 10,200,000 | - | (449) |
| **Total derivative financial instruments** | | 15 | (449) |

## 18. DUE TO THE NATIONAL BANK

As at 31 December 2010 Bank had short-term loan from the National Bank in the amount of BYR 8,931 million. The loan was collateralized by banking bonds with the carrying amount of BYR 12,877 million (Note 15).

## 19. DUE TO BANKS

Due to banks comprise:

| | 31 December 2010 | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| Loans and deposits from banks | 175,233 | 8,980 | 13,042 |
| Correspondent accounts of banks | 439 | 188 | 610 |
| **Total due to banks** | 175,672 | 9,168 | 13,652 |

As at 31 December 2010 and 2009 and 1 January 2009 balances due to banks included BYR 170,624 million (97%), BYR 8,979 million (98%) and BYR 9,539 million (70%), respectively, due to three banks, which represented significant concentration.

## 20. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2010 | 31 December 2009 (as restated, Note 4) | 1 January 2009 |
|---|---|---|---|
| Repayable on demand | 219,114 | 229,669 | 156,387 |
| Time deposits | 152,492 | 162,997 | 99,389 |
| **Total customer accounts** | 371,606 | 392,666 | 255,776 |

As at 31 December 2010 and 31 December 2009 and 1 January 2009 customer accounts amounting to BYR 13,153 million, BYR 39,978 million and BYR 94,755 million, respectively, were held as security against letters of credit and guarantees issued by the Bank.

As at 31 December 2010 and 2009 and 1 January 2009 customer accounts amounting to BYR 29,900 million (8%), BYR 78,843 million (20%) and BYR 111,281 million (44%) were due to one customer - OJSC "Naftan", which represented significant concentration.

| **Analysis by sector** | **31 December 2010** | **31 December 2009** | **1 January 2009** |
|---|---|---|---|
| Individuals | 200,814 | 144,873 | 58,323 |
| Oil refining and energy | 37,038 | 132,642 | 113,637 |
| Trade | 31,467 | 22,699 | 14,510 |
| Production | 26,360 | 12,289 | 2,566 |
| Sporting clubs | 24,640 | 25,724 | 22,074 |
| Real estate | 8,768 | 2,845 | 3 |
| Construction | 5,267 | 3,171 | 24,357 |
| Transport and communications | 4,646 | 28,574 | 1,210 |
| Entrepreneurs | 1,998 | 1,082 | 706 |
| Agriculture | 1,198 | 1,664 | 1,325 |
| Leasing companies | 518 | 1,146 | 48 |
| Insurance | 126 | 119 | 1,553 |
| Other | 28,766 | 15,838 | 15,464 |
| **Total customer accounts** | 371,606 | 392,666 | 255,776 |

## 21. DEBT SECURITIES ISSUED

As at 31 December 2010 the Bank had in issue 20,000 coupon bonds with par value of USD 1,000 and 15,700 coupon bonds with par value of BYR 1,000,000 each. Bonds nominated in USD were issued with nominal interest rate of 9.00% and 7.50% p.a. and maturity dates of 18 January 2011 and 23 November 2015. Bonds nominated in BYR were issued with nominal interest rate 13% p.a. and maturity date of 3 January 2012.

As at 31 December 2009 the Bank had in issue 9,961 coupon bonds with par value of USD 1,000 each. Bonds were issued with nominal interest rate of 9% p.a. and maturity date of 16 July 2010.

As at 1 January 2009 the Bank had in issue 6,872 bonds with par value of BYR 100,000 each. Bonds were issued at a discount with yield at pricing of 12.5% p.a. and maturity date of 17 February 2009.

## 22. OTHER LIABILITIES

Other liabilities comprise:

| | 31 December 2010 | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| **Other financial liabilities:** | | | |
| Due to employees | 927 | 883 | - |
| Derivative financial liabilities (Note 7) | 710 | 264 | 449 |
| Finance lease liability | 322 | 422 | 18 |
| Other financial liabilities | 253 | 135 | 2,242 |
| **Total other financial liabilities** | 2,212 | 1,704 | 2,709 |
| **Other non-financial liabilities:** | | | |
| Provisions for losses on guarantees and other commitments | 1,297 | 315 | 1,497 |
| Amounts payable to deposits guarantee fund | 602 | 424 | 27 |
| Taxes payable, other than income taxes | 237 | 380 | 460 |
| **Total other liabilities** | 4,348 | 2,823 | 4,693 |

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

## 23. SUBORDINATED DEBT

Subordinated debt comprises:

| | Currency | Maturity Date | Interest rate | 31 December 2010 | 31 December 2009 | 1 January 2009 |
|---|---|---|---|---|---|---|
| JSIC “B&B Insurance Co” | EUR | 16 March 2011 | 6.00% | - | 411 | 308 |
| JSIC “B&B Insurance Co” | USD | 16 March 2011 | 7.00% | - | 859 | 660 |
| ABH Belarus Limited | EUR | 2 February 2016 | 7.21% | 17,877 | 18,477 | - |
| ABH Belarus Limited | USD | 29 July 2017 | 6.75% | 9,000 | - | - |
| ABH Belarus Limited | EUR | 14 September 2016 | 7.40% | 7,945 | 8,212 | - |
| CJSC “MTBank” | USD | 16 March 2011 | 7.00% | 900 | - | - |
| CJSC “MTBank” | EUR | 16 March 2011 | 6.00% | 397 | - | - |
| **Total subordinated debt** | | | | 36,119 | 27,959 | 968 |

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank’s liabilities to all other creditors.

In 2010 CJSC ”MTBank“ bought subordinated debts from JSIC “B&B Insurance Co”. All provisions of the agreement with JSIC “B&B Insurance Co” didn't change.

## 24. SHARE CAPITAL

As at 31 December 2010 and 2009 authorized, issued and fully paid-in share capital consisted of 81,880,232 ordinary shares with a par value of BYR 500 each. As at 1 January 2009 authorized, issued and fully paid-in share capital consisted of 35,000,471 ordinary shares with a par value of BYR 500 each. All shares are ranked equally and carry one vote.

In February 2009 the Bank issued 31,138,650 ordinary shares with a par value of BYR 500 each. The issue has been purchased in full resulting in BYR 15,569 million proceeds in cash.

In March 2009 the Bank increased the amount of its share capital by an internal transfer from other reserves which had a credit balance in the statutory financial statements. The Bank issued 15,741,111 ordinary shares with par value of BYR 500 each and distributed them among shareholders according to their ownership share. As a result, the amount of registered share capital per the Statute of the Bank increased, and this increase was presented in these IFRS financial statements with a corresponding debit to accumulated deficit.

For the years ended 31 December 2010 and 2009 the Bank didn’t declare dividends.

## 25. COMMITMENTS AND CONTINGENCIES

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

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

As at 31 December 2010 and 2009 and 1 January 2009 the nominal or contract amounts of contingent liabilities were:

| | 31 December 2010 | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| **Contingent liabilities and credit commitments** | | | |
| Guarantees issued | 37,249 | 6,450 | 12,977 |
| Commitments on loans and unused credit lines | 12,270 | 7,460 | 22,924 |
| Letters of credit secured by cash | 9,884 | 38,028 | 93,489 |
| Letters of credit, other | 11,700 | 4,924 | 4,368 |
| **Total contingent liabilities and credit commitments** | 71,103 | 56,862 | 133,758 |

Commitments on loans and unused credit lines represent the Bank’s commitments to extend loans within unused credit facilities that are conditioned on the following: a borrower has to apply to the Bank each time it wants to extend its borrowings within initial credit line limit; and the Bank may approve the extension of finance based on a borrower’s financial performance, debt service and other credit risk characteristics.

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

***Pensions and retirement plans*** – Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2010 and 2009 and 1 January 2009 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

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

## 26. TRANSACTIONS WITH RELATED PARTIES

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

The Bank had the following balances on transactions with related parties outstanding as at 31 December 2010 and 2009 and 1 January 2009:

| | **31 December 2010** | | **31 December 2009** | | **1 January 2009** | |
|---|---|---|---|---|---|---|
| | **Related party balances** | **Total category as per the financial statements caption** | **Related party balances** | **Total category as per the financial statements caption** | **Related party balances** | **Total category as per the financial statements caption** |
| Due from banks and other financial institutions | **2,249** | **58,199** | **2,138** | **100,248** | **1,109** | **90,124** |
| *- entities under common control* | 2,249 | | 2,138 | | 1,109 | |
| Loans to customers | **8,594** | **449,551** | **5,453** | **257,926** | **667** | **168,446** |
| *- key management personnel* | 218 | | 343 | | 667 | |
| *- entities under common control* | 8,376 | | 5,110 | | - | |
| Allowance for impairment losses on loans to customers | **44** | **16,808** | **407** | **19,453** | **13** | **12,711** |
| *- key management personnel* | 15 | | 21 | | 13 | |
| *- entities under common control* | 29 | | 386 | | - | |
| Investments available for sale | **12,090** | **157,563** | - | **56,583** | - | **11,633** |
| *- entities under common control* | 12,090 | | - | | - | |
| Due to banks | **140,624** | **175,672** | **11** | **9,168** | **9,539** | **13,652** |
| *- entities under common control* | 140,624 | | 11 | | 9,539 | |
| Customer accounts | **8,952** | **371,606** | **69,781** | **392,666** | **272** | **255,776** |
| *- key management personnel* | 491 | | 649 | | 272 | |
| *- entities under common control* | 8,461 | | 69,132 | | - | |
| Other liabilities | **25** | **4,348** | - | **2,823** | - | **4,693** |
| *- entities under common control* | 25 | | - | | - | |
| Subordinated debt | **34,822** | **36,119** | **26,689** | **27,959** | - | **968** |
| *- shareholders* | 34,822 | | 26,689 | | - | |

Included in the statement of comprehensive income 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 the financial statements caption** | **Related party transactions** | **Total category as per the financial statements caption** |
| Interest income | **1,115** | **48,034** | **76** | **37,787** |
| *- key management personnel* | 32 | | 46 | |
| *- entities under common control* | 1,083 | | 30 | |
| Interest expense | **(4,275)** | **(34,789)** | **(2,014)** | **(18,399)** |
| *- shareholders* | (2,174) | | (1,494) | |
| *- key management personnel* | (34) | | (15) | |
| *- entities under common control* | (2,067) | | (505) | |
| (Provision)/recovery of provision for impairment losses for loans to customers | **363** | **(1,388)** | **(394)** | **(12,222)** |
| *- key management personnel* | 6 | | (8) | |
| *- entities under common control* | 357 | | (386) | |
| Fee and commission income | **5,700** | **21,979** | **45** | **14,089** |
| *- key management personnel* | 3 | | - | |
| *- entities under common control* | 5,697 | | 45 | |
| Fee and commission expense | **(184)** | **(2,274)** | **(229)** | **(1,848)** |
| *- entities under common control* | (184) | | (229) | |
| Operating expenses | **(3,326)** | **(49,879)** | **(2,294)** | **(42,508)** |
| *- key management personnel (remuneration)* | (3,326) | | (2,294) | |

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

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

**Financial instruments for which fair value approximates carrying value**

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

**Due from banks and other financial institutions**

The management assumes that the fair value of term deposits in banks does not differ materially from the carrying value due to fact that the major portion of the term deposit is short-term.

**Loans to customers**

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

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

**Financial investments available for sale**

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

**Customer accounts**

The Bank has a contractual right to revise and revises the rates for deposits with fixed interest rates to correspond to the current market situation. As a result interest expense on the most of balances is charged at rates which approximate market ones. Due to this fact the fair value of deposits with fixed rate does not materially differ from their carrying value.

**Debt securities issued by the Bank**

Rates on the debt financial instruments are in line with the market ones. The management believes that fair value of such instruments does not materially differ from their carrying value.

**Due to banks and other financial institutions**

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

- Floating rate – the management believes that the carrying value may be accepted as fair value.
- Fixed rate – most of fixed-rate borrowings have maturities up to 3 months. The Bank has one loan at fixed rate maturing in December 2011 granted by a related party of the Bank. The management believes that the loan is granted at a market rate and its carrying value approximates its fair value.

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant amount of judgment.

- Valuation techniques using observable inputs (Level 2) – Valuations for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

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

The Banks valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value is as follows:

| | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|
| | **Quoted prices in active market (Level 1)** | **Valuation techniques based on observable market data (Level 2)** | **Quoted prices in active market (Level 1)** | **Valuation techniques based on observable market data (Level 2)** |
| Derivative financial instruments (assets) | - | 2,821 | - | 229 |
| Investments available for sale | 53,878 | 103,685 | - | 56,583 |
| Derivative financial instruments (liabilities) | - | (710) | - | (264) |

## 28. CAPITAL RISK MANAGEMENT

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

| | **31 December 2010** | **31 December 2009** |
|---|---|---|
| Composition of regulatory capital: | | |
| Tier 1 capital: | | |
| Share capital | 76,205 | 76,205 |
| Less: Accumulated deficit | (14,131) | (21,545) |
| Total qualifying tier 1 capital | 62,074 | 54,660 |
| Subordinated debt | 31,037 | 26,995 |
| Investments available for sale revaluation reserve | 533 | (7) |
| Total regulatory capital | 93,644 | 81,648 |
| Capital Ratios: | | |
| Tier 1 capital | 8.91% | 15.23% |
| Total capital | 13.44% | 22.75% |

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

The capital structure of the Bank consists of debt, which includes subordinated debt disclosed in Note 23, and issued capital as disclosed in statement of changes in equity.

The Bank reviews the capital structure, cost of capital and the risks associated with each class of capital. Based on recommendations of the Finance Committee, the Bank balances its overall capital structure through the payment of dividends, obtaining or redemption of subordinated debt. The Bank's controlling shareholder provides finance to the Bank through subordinated debt, contributions to the share capital or interbank loans from the entities of Alfabank consortium.

## 29. RISK MANAGEMENT POLICIES

Risk management is fundamental to the Bank's business. The main risks inherent to the Bank's operations are those related to:

- credit risk;
- liquidity risk;
- market risk.

To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

### Credit risk

The Bank 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.

Risk management and monitoring is performed within set limits of authority, by the Credit Committee and the Bank's Management Board. Before any application is made to the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the risk-manager of the Risk Management Department. Daily risk management is performed by the Head of Risk Management Department.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Credit risks are monitored on a continuous basis and are subject to regular reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The Bank applies the same credit policy to the contingent liabilities as it does to the financial assets, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

### Maximum Exposure

The Bank's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

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 Bank 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 December 2009** |
|---|---|---|
| Balances with the National Bank | 15,559 | 57,439 |
| Due from banks and other financial institutions | 58,199 | 100,248 |
| Loans to customers | 432,743 | 238,473 |
| Investments available for sale | 157,563 | 56,583 |
| Other financial assets | 6,098 | 1,810 |
| Guarantees issued | 36,700 | 6,417 |
| Uncovered letters of credit | 10,952 | 4,642 |
| Commitments on loans and unused credit lines | 12,270 | 7,460 |

Financial assets are classified according to the current credit rating they have been issued by an international credit rating agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. The following table details the credit ratings of financial assets held by the Bank per Fitch Ratings scale. The government debt securities, as well as current account in the National Bank are presented in accordance with Standard & Poor’s scale:

| | **AA** | **A** | **<BBB** | **Not rated** | **31 December 2010 Total** |
|---|---|---|---|---|---|
| Balances with the National Bank | - | - | 15,559 | - | 15,559 |
| Due from banks and other financial institutions | 20,944 | 4,532 | 32,609 | 114 | 58,199 |
| Loans to customers | - | - | - | 432,743 | 432,743 |
| Investments available for sale | - | - | 99,127 | 58,436 | 157,563 |
| Other financial assets | - | - | 2,821 | 3,277 | 6,098 |

| | **AA** | **A** | **<BBB** | **Not rated** | **31 December 2009 Total** |
|---|---|---|---|---|---|
| Balances with the National Bank | - | - | 57,439 | - | 57,439 |
| Due from banks and other financial institutions | 2,647 | 60,991 | 35,362 | 1,248 | 100,248 |
| Loans to customers | - | - | - | 238,473 | 238,473 |
| Investments available for sale | - | - | 56,564 | 19 | 56,583 |
| Other financial assets | - | - | 229 | 1,581 | 1,810 |

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Belarus. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank’s risk management policy are not breached.

***Collateral***

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are presented in Note 14.

Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreements.

### Geographical concentration

The Bank assesses influence of geographical risk on its activity. The geographical concentration of assets and liabilities is set out below:

| | Belarus | Russia | Other CIS | Europe | USA | Other | 31 December 2010 Total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | |
| Cash and balances with the National Bank | 43,900 | - | - | - | - | - | 43,900 |
| Due from banks and other financial institutions | 14,451 | 2,239 | 5 | 39,868 | 1,636 | - | 58,199 |
| Loans to customers | 432,743 | - | - | - | - | - | 432,743 |
| Investments available for sale | 156,047 | 1,516 | - | - | - | - | 157,563 |
| Other financial assets | 6,098 | - | - | - | - | - | 6,098 |
| **TOTAL FINANCIAL ASSETS** | 653,239 | 3,755 | 5 | 39,868 | 1,636 | - | 698,503 |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Due to the National Bank | 8,931 | - | - | - | - | - | 8,931 |
| Due to banks | 30,149 | 120,569 | 17 | 24,937 | - | - | 175,672 |
| Customer accounts | 350,213 | 11,631 | 1,801 | 5,113 | 6 | 2,842 | 371,606 |
| Debt securities issued | 76,670 | - | - | - | - | - | 76,670 |
| Other financial liabilities | 2,203 | 9 | - | - | - | - | 2,212 |
| Subordinated debt | 1,297 | - | - | 34,822 | - | - | 36,119 |
| **TOTAL FINANCIAL LIABILITIES** | 469,463 | 132,209 | 1,818 | 64,872 | 6 | 2,842 | 671,210 |
| **NET POSITION** | 183,776 | (128,454) | (1,813) | (25,004) | 1,630 | (2,842) | |

| | Belarus | Russia | Other CIS | Europe | USA | Other | 31 December 2009 Total |
|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | |
| Cash and balances with the National Bank | 86,604 | - | - | - | - | - | 86,604 |
| Due from banks and other financial institutions | 9,586 | 2,384 | 9 | 40,944 | 47,325 | - | 100,248 |
| Loans to customers | 238,473 | - | - | - | - | - | 238,473 |
| Investments available for sale | 56,564 | 19 | - | - | - | - | 56,583 |
| Other financial assets | 1,801 | 9 | - | - | - | - | 1,810 |
| **TOTAL FINANCIAL ASSETS** | 393,028 | 2,412 | 9 | 40,944 | 47,325 | - | 483,718 |
| **FINANCIAL LIABILITIES** | | | | | | | |
| Due to banks | 5,996 | 51 | - | 3,121 | - | - | 9,168 |
| Customer accounts | 385,894 | 2,383 | 217 | 4,065 | 25 | 82 | 392,666 |
| Debt securities issued | 29,267 | - | - | - | - | - | 29,267 |
| Other financial liabilities | 1,704 | - | - | - | - | - | 1,704 |
| Subordinated debt | 1,270 | - | - | 26,689 | - | - | 27,959 |
| **TOTAL FINANCIAL LIABILITIES** | 424,131 | 2,434 | 217 | 33,875 | 25 | 82 | 460,764 |
| **NET POSITION** | (31,103) | (22) | (208) | 7,069 | 47,300 | (82) | |

**Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Financial Committee of the Bank determines optimal structure of assets and liabilities and monitors its realization.

An analysis of the liquidity and interest rate risks is presented in the following table. The tables have been drawn up to detail the remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Bank can be required to pay.

| | Weighted average interest rate | Up to 1 month | 1 month to 3 months | 3 months 6 months | 6 months to 1 year | Over 1 year | Maturity undefined | 31 December 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Due to banks | 7% | 81,189 | 1,093 | 1,640 | 91,658 | - | 60 | 175,640 |
| Customer accounts | 5% | 259,527 | 23,269 | 8,032 | 27,432 | 60,432 | - | 378,692 |
| Debt securities issued | 8% | 31,108 | 407 | 610 | 1,221 | 42,375 | - | 75,721 |
| Subordinated debt | 7% | 7 | 1,305 | - | - | - | - | 1,312 |
| **Total interest bearing liabilities at fixed rates** | | 371,831 | 26,074 | 10,282 | 120,311 | 102,807 | 60 | 631,365 |
| Due to banks | 3% | 35 | 39 | 236 | 2,716 | 2,182 | - | 5,208 |
| Debt securities issued | 13% | 336 | 336 | 503 | 1,007 | 17,741 | - | 19,923 |
| Subordinated debt | 7% | 204 | 408 | 612 | 1,225 | 47,239 | - | 49,688 |
| **Total interest bearing liabilities at variable rates** | | 575 | 783 | 1,351 | 4,948 | 67,162 | - | 74,819 |
| **Total interest bearing liabilities** | | 372,406 | 26,857 | 11,633 | 125,259 | 169,969 | 60 | 706,184 |
| Due to banks | | 438 | - | - | - | - | - | 438 |
| Other financial liabilities | | 1,206 | 652 | 49 | 178 | 127 | - | 2,212 |
| Guarantees issued | | 37,249 | - | - | - | - | - | 37,249 |
| Letters of credit not secured by cash | | 11,700 | - | - | - | - | - | 11,700 |
| Commitments on loans and unused credit lines | | 12,270 | - | - | - | - | - | 12,270 |
| **TOTAL FINANCIAL LIABILITIES** | | 435,269 | 27,509 | 11,682 | 125,437 | 170,096 | 60 | 770,053 |

| | Weighted average interest rate | Up to 1 month | 1 month to 3 months | 3 months 6 months | 6 months to 1 year | Over 1 year | Maturity undefined | 31 December 2009 Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Due to banks | 11% | 2,887 | 57 | 3,122 | - | - | - | 6,066 |
| Customer accounts | 10% | 260,118 | 37,585 | 15,899 | 45,900 | 15,428 | - | 374,930 |
| Debt securities issued | 9% | 216 | 433 | 649 | 29,924 | - | - | 31,222 |
| Subordinated debt | 7% | 7 | 14 | 20 | 42 | 1,287 | - | 1,370 |
| **Total interest bearing liabilities at fixed rates** | | 263,228 | 38,089 | 19,690 | 75,866 | 16,715 | - | 413,588 |
| Due to banks | 3% | 8 | 17 | 3,122 | | - | - | 3,147 |
| Customer accounts | 2% | 88 | 18,545 | - | 8,259 | - | - | 26,892 |
| Subordinated debt | 8% | 174 | 349 | 523 | 1,046 | 29,871 | - | 31,963 |
| **Total interest bearing liabilities at variable rates** | | 270 | 18,911 | 3,645 | 9,305 | 29,871 | - | 62,002 |
| **Total interest bearing liabilities** | | 263,498 | 57,000 | 23,335 | 85,171 | 46,586 | - | 475,590 |
| Due to banks | | 187 | - | - | - | - | - | 187 |
| Other financial liabilities | | 1,011 | 28 | 305 | 83 | 258 | 19 | 1,704 |
| Guarantees issued | | 6,450 | - | - | - | - | - | 6,450 |
| Letters of credit not secured by cash | | 4,924 | - | - | - | - | - | 4,924 |
| Commitments on loans and unused credit lines | | 7,460 | - | - | - | - | - | 7,460 |
| **TOTAL FINANCIAL LIABILITIES** | | 283,530 | 57,028 | 23,640 | 85,254 | 46,844 | 19 | 496,315 |

The following tables present an analysis of the interest rate risk and the liquidity risk on the statement of financial position.

| | Up to 1 month | 1 month to 3 months | 3 months 6 months | 6 months to 1 year | Over 1 year | Overdue | Maturity undefined | 31 December 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | | |
| Due from banks and other financial institutions | 45,117 | 88 | - | - | - | - | - | 45,205 |
| Loans to customers | 56,528 | 177,905 | 99,175 | 68,457 | 29,822 | 856 | - | 432,743 |
| Investments available for sale | 523 | 1,711 | 342 | 21,376 | 133,592 | - | 19 | 157,563 |
| **Total interest bearing financial assets** | 102,168 | 179,704 | 99,517 | 89,833 | 163,414 | 856 | 19 | 635,511 |
| Cash and balances with the National Bank | 43,900 | | | | | | | 43,900 |
| Due from banks | 12,994 | - | - | - | - | - | - | 12,994 |
| Other financial assets | 2,970 | - | - | - | 2,821 | 188 | 119 | 6,098 |
| **TOTAL FINANCIAL ASSETS** | 162,032 | 179,704 | 99,517 | 89,833 | 166,235 | 1,044 | 138 | 698,503 |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Due to the National Bank | 8,931 | | | | | | | 8,931 |
| Due to banks | 80,423 | 14 | 199 | 92,663 | 1,875 | - | 60 | 175,234 |
| Customer accounts | 258,592 | 22,480 | 7,024 | 25,792 | 57,718 | - | - | 371,606 |
| Debt securities issued | 30,970 | - | - | - | 45,700 | - | - | 76,670 |
| Subordinated debt | - | 1,297 | - | - | 34,822 | - | - | 36,119 |
| **Total interest bearing financial liabilities** | 378,916 | 23,791 | 7,223 | 118,455 | 140,115 | - | 60 | 668,560 |
| Due to banks | 438 | - | - | - | - | - | - | 438 |
| Other financial liabilities | 1,206 | 652 | 49 | 178 | 127 | - | - | 2,212 |
| **TOTAL FINANCIAL LIABILITIES** | 380,560 | 24,443 | 7,272 | 118,633 | 140,242 | - | 60 | 671,210 |
| Liquidity gap | (218,528) | 155,261 | 92,245 | (28,800) | 25,993 | 1,044 | | |
| Interest sensitivity gap | (276,748) | 155,913 | 92,294 | (28,622) | 23,299 | 856 | | |
| **Cumulative interest sensitivity gap** | (276,748) | (120,835) | (28,541) | (57,163) | (33,864) | (33,008) | | |
| **Cumulative interest sensitivity gap as a percentage of total financial assets** | (40%) | (17%) | (4%) | (8%) | (5%) | (5%) | | |

| | Up to 1 month | 1 month to 3 months | 3 months to 6 months | 6 months to 1 year | Over 1 year | Overdue | Maturity undefined | 31 December 2009 Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | | | |
| Due from banks and other financial institutions | 32,017 | 1,614 | 854 | 2,972 | 819 | - | - | 38,276 |
| Loans to customers | 29,441 | 100,653 | 36,548 | 25,184 | 45,174 | 1,473 | - | 238,473 |
| Investments available for sale | 11,632 | 14,277 | 4,977 | 25,008 | 670 | - | 19 | 56,583 |
| **Total interest bearing financial assets** | 73,090 | 116,544 | 42,379 | 53,164 | 46,663 | 1,473 | 19 | 333,332 |
| Cash and balances with the National Bank | 86,604 | - | | | - | - | - | 86,604 |
| Due from banks and other financial institutions | 61,972 | - | | | - | - | - | 61,972 |
| Other financial assets | 1,072 | 257 | 22 | 36 | - | - | 423 | 1,810 |
| **TOTAL FINANCIAL ASSETS** | 222,738 | 116,801 | 42,401 | 53,200 | 46,663 | 1,473 | 442 | 483,718 |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| Due to banks | 2,894 | - | 3,081 | - | 3,006 | - | - | 8,981 |
| Customer accounts | 258,282 | 54,635 | 14,677 | 53,102 | 11,970 | - | - | 392,666 |
| Debt securities issued | - | - | - | 29,267 | - | - | - | 29,267 |
| Subordinated debt | - | - | - | - | 27,959 | - | - | 27,959 |
| **Total interest bearing financial liabilities** | 261,176 | 54,635 | 17,758 | 82,369 | 42,935 | - | - | 458,873 |
| Due to banks | 187 | - | - | - | - | - | - | 187 |
| Other financial liabilities | 1,011 | 28 | 305 | 83 | 258 | - | 19 | 1,704 |
| **TOTAL FINANCIAL LIABILITIES** | 262,374 | 54,663 | 18,063 | 82,452 | 43,193 - | - | 19 | 460,764 |
| Liquidity gap | (39,636) | 62,138 | 24,338 | (29,252) | 3,470 | - | | |
| Interest sensitivity gap | (188,086) | 61,909 | 24,621 | (29,205) | 3,728 | - | | |
| **Cumulative interest sensitivity gap** | (188,086) | (126,177) | (101,556) | (130,761) | (127,033) | (127,033) | | |
| **Cumulative interest sensitivity gap as a percentage of total financial assets** | (39%) | (26%) | (21%) | (27%) | (26%) | (26%) | | |

Asset and liability maturity periods and the ability to replace liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity. Currently, a considerable part of customer deposits are repayable on demand. However, these deposits are diversified by the number and type of customers and the Bank expects that certain amount of current accounts and demand deposits will remain stable. Also, although investments available for sale are presented in accordance with their contractual maturities, they are either quoted in an active market or traded on over-the-counter interbank market and could be sold before their maturities to cover liquidity gaps.

**Market Risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is not an active participator on a capital market and is insignificantly exposed to market risks. The Bank manages market risk through regular monitoring of market situation.

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Bank's interest rate policy is analyzed and developed by Finance Committee and approved by the Management Board of the Bank.

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. 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 31 December 2010 and 2009, respectively, on the net profit of the Bank 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 income taxes:

| | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|
| | **Interest rate +5%** | **Interest rate -5%** | **Interest rate +5%** | **Interest rate -5%** |
| **Assets:** | | | | |
| Due from banks and other financial institutions | 242 | (242) | 986 | (986) |
| Loans to customers | 200 | (200) | 104 | (104) |
| Investments available for sale | 2,035 | (2,035) | - | - |
| **Liabilities:** | | | | |
| Due to banks | (237) | 237 | (153) | 153 |
| Customer accounts | - | - | (1,336) | 1,336 |
| Debt securities issued | (785) | 785 | - | - |
| Subordinated debt | (1,741) | 1,741 | (1,334) | 1,334 |
| **Net impact on profit before income taxes** | (286) | 286 | (1,733) | 1,733 |

Impact on comprehensive income:

| | **31 December 2010** | | **31 December 2009** | |
|---|---|---|---|---|
| | **Interest rate +5%** | **Interest rate -5%** | **Interest rate +5%** | **Interest rate -5%** |
| **Assets:** | | | | |
| Due from banks and other financial institutions | 242 | (242) | 986 | (986) |
| Loans to customers | 200 | (200) | 104 | (104) |
| Investments available for sale | (10,599) | 12,839 | (697) | 725 |
| **Liabilities:** | | | | |
| Due to banks | (237) | 237 | (153) | 153 |
| Customer accounts | - | - | (1,336) | 1,336 |
| Debt securities issued | (785) | 785 | - | - |
| Subordinated debt | (1,741) | 1,741 | (1,334) | 1,334 |
| **Net impact on comprehensive income** | (12,920) | 15,160 | (2,430) | 2,458 |

### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In order to minimize currency risk, the Bank applies the following tools: limits on banks-counterparties, limits on the open currency position, the compliance with a level of exposure for one borrower, limits on advances and deposits to banks-non-residents not included in the OECD. Transactions are performed in compliance with limits set by the Credit Committee. These limits also comply with the minimum requirements of the National Bank. The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

| | **BYR** | **USD** 1USD= BYR 3000.00 | **EUR** 1EUR= BYR 3972.6 | **RUB** 1RUB= BYR 98.44 | **Other currencies** | **31 December 2010 Total** |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| Cash and balances with the National Bank | 27,951 | 10,658 | 3,984 | 1,307 | - | 43,900 |
| Due from banks and other financial institutions | 10,333 | 24,379 | 21,211 | 2,248 | 28 | 58,199 |
| Loans to customers | 193,630 | 141,300 | 88,439 | 9,374 | - | 432,743 |
| Investments available for sale | 65,315 | 92,248 | - | - | - | 157,563 |
| Other financial assets | 4,467 | 609 | 1,022 | - | - | 6,098 |
| **TOTAL FINANCIAL ASSETS** | 301,696 | 269,194 | 114,656 | 12,929 | 28 | 698,503 |
| **FINANCIAL LIABILITIES** | | | | | | |
| Due to the National Bank | 8,931 | - | - | - | - | 8,931 |
| Due from banks and other financial institutions | 30,219 | 120,815 | 24,631 | 7 | - | 175,672 |
| Customer accounts | 92,692 | 173,927 | 94,920 | 10,064 | 3 | 371,606 |
| Debt securities issued | 15,868 | 60,802 | - | - | - | 76,670 |
| Other financial liabilities | 1,936 | 88 | 126 | 1 | 61 | 2,212 |
| Subordinated debt | - | 9,900 | 26,219 | - | - | 36,119 |
| **TOTAL FINANCIAL LIABILITIES** | 149,646 | 365,532 | 145,896 | 10,072 | 64 | 671,210 |
| **NET CURRENCY POSITION** | 152,050 | (96,338) | (31,240) | 2,857 | (36) | |

### Derivative financial instruments

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

| | **BYR** | **USD** 1USD= BYR 3000.00 | **EUR** 1EUR= BYR 3972.6 | **RUB** 1RUB= BYR 98.44 | **Other currencies** | **31 December 2010 Total** |
|---|---|---|---|---|---|---|
| Claims on swap transactions | - | 135,918 | 29,993 | - | - | 165,911 |
| Obligations on swap transactions | (142,242) | (29,992) | - | - | - | (172,234) |
| **NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION** | (142,242) | 105,926 | 29,993 | - | - | (6,323) |
| **TOTAL CURRENCY POSITION** | 9,808 | 9,588 | (1,247) | 2,857 | (36) | |

| | 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 | 68,932 | 13,011 | 3,030 | 1,631 | - | 86,604 |
| Due from banks and other financial institutions | 6,573 | 42,723 | 33,922 | 2,340 | 14,690 | 100,248 |
| Loans to customers | 68,235 | 97,222 | 69,341 | 3,675 | - | 238,473 |
| Investments available for sale | 2,864 | 19,004 | 34,715 | - | - | 56,583 |
| Other financial assets | 1,661 | 149 | - | - | - | 1,810 |
| **TOTAL FINANCIAL ASSETS** | 148,265 | 172,109 | 141,008 | 7,646 | 14,690 | 483,718 |
| **FINANCIAL LIABILITIES** | | | | | | |
| Due to banks | 1,210 | 119 | 7,834 | 5 | - | 9,168 |
| Customer accounts | 114,154 | 182,158 | 85,491 | 10,861 | 2 | 392,666 |
| Debt securities issued | - | 29,267 | - | - | - | 29,267 |
| Other financial liabilities | 1,500 | 13 | 191 | - | - | 1,704 |
| Subordinated debt | - | 859 | 27,100 | - | - | 27,959 |
| **TOTAL FINANCIAL LIABILITIES** | 116,864 | 212,416 | 120,616 | 10,866 | 2 | 460,764 |
| **NET CURRENCY POSITION** | 31,401 | (40,307) | 20,392 | (3,220) | 14,688 | |

## Derivative financial instruments

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

| | BYR | USD 1USD= BYR 2863 | EUR 1EUR= BYR 4106.11 | RUB 1RUB= BYR 94.66 | Other currencies | 31 December 2009 Total |
|---|---|---|---|---|---|---|
| Claims on swap transactions | - | 41,070 | 18,477 | - | - | 59,547 |
| Obligations on swap transactions | (19,201) | - | (41,061) | - | - | (60,262) |
| **NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION** | (19,201) | 41,070 | (22,584) | - | - | (715) |
| **TOTAL CURRENCY POSITION** | 12,200 | 763 | (2,192) | (3,220) | 14,688 | |

### Currency risk sensitivity

The following table details the Bank's sensitivity to a change in the USD, EUR and RUB exchange rate against the BYR. As at 31 December 2010 and 2009 in connection with volatility in financial markets, as it is disclosed in Notes 30 and 31, the management of the Bank analyzed sensitivity to 30% increase and 10% decrease in foreign currencies' rates against BYR. These are sensitivity rate used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign currency exchange rates. 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 | | | | | |
|---|---|---|---|---|---|---|
| | **USD/BYR** | | **EUR/BYR** | | **RUB/BYR** | |
| | **+30%** | **-10%** | **+30%** | **-10%** | **+30%** | **-10%** |
| Impact on profit or loss and comprehensive income | 2,876 | (959) | (374) | 125 | 857 | (286) |

| | 31 December 2009 | | | | | |
|---|---|---|---|---|---|---|
| | **USD/BYR** | | **EUR/BYR** | | **RUB/BYR** | |
| | **+30%** | **-10%** | **+30%** | **-10%** | **+30%** | **-10%** |
| Impact on profit or loss and comprehensive income | 229 | (76) | (658) | 219 | (966) | 322 |

### 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 larger or smaller impacts should not be interpolated or extrapolated from these results.

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

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

## 30. OPERATING ENVIRONMENT AND THE INFLUENCE OF THE WORLD FINANCIAL CRISIS

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

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

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

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

## 31. SUBSEQUENT EVENTS

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

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

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