

**Closed joint-stock company
“Sombelbank”
IFRS Financial Statements**

Year ended 31 December 2010

Together with Independent Auditors' Report

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Independent auditors' report

To the Shareholders and Board of Directors of Closed Joint-Stock Company "Sombelbank"

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

Management's responsibility for the 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 misstatement, whether due to fraud or error.

Auditors' responsibility

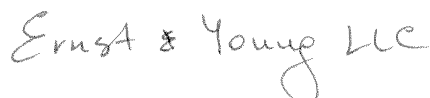
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about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



21 April 2011

Statement of financial position**As of 31 December 2010***(Millions of Belarusian roubles)*

	<i>Notes</i>	2010	2009
Assets			
Cash and cash equivalents	5	31,140	29,176
Amounts due from credit institutions	6	334	820
Loans to customers	7	141,800	64,889
Property and equipment	8	4,858	1,761
Intangible assets	9	966	300
Deferred income tax assets	10	245	-
Other assets	11	2,985	887
Total assets		182,328	97,833
Liabilities			
Amounts due to credit institutions	13	8,691	120
Amounts due to customers	14	62,850	38,345
Borrowings	15	29,839	11,644
Current income tax liability		363	542
Other liabilities	11	4,051	1,213
Total liabilities		105,794	51,864
Equity			
Share capital	16	57,458	37,724
Retained earnings		19,076	8,245
Total equity		76,534	45,969
Total liabilities and equity		182,328	97,833

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

Tatyana Mikhailovna Medvedeva



Chairwoman of the Management Board

Elena Mikhailovna Papusheva



Chief Accountant

15 April 2011

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

Statement of comprehensive income
For the year ended 31 December 2010

(Millions of Belarusian roubles)

	<i>Notes</i>	2010	2009
Interest income			
Loans to customers		35,141	21,504
Amounts due from credit institutions		1,481	1,559
Investment securities		396	179
		<u>37,018</u>	<u>23,242</u>
Interest expense			
Amounts due to credit institutions		(3,792)	(3,352)
Amounts due to customers		(3,935)	(2,120)
		<u>(7,727)</u>	<u>(5,472)</u>
Net interest income		29,291	17,770
Loan impairment charge	7	(2,471)	(3,764)
Net interest income after loan impairment charge		<u>26,820</u>	<u>14,006</u>
Net fee and commission income	18	1,300	1,734
Net (losses)/gains from investment securities available-for-sale		(1)	1,236
Net gains/(losses) from foreign currencies:			
- dealing		5,760	2,228
- translation differences		(486)	(587)
Other income	19	3,309	561
Non-interest income		<u>9,882</u>	<u>5,172</u>
Personnel expenses	20	(8,908)	(4,501)
Rent and occupancy expenses		(3,544)	(2,606)
Other assets impairment losses	12	(1,246)	-
Depreciation and amortisation	8, 9	(625)	(455)
Taxes other than income tax		(563)	(434)
Other operating expenses	20	(6,357)	(3,361)
Non-interest expenses		<u>(21,243)</u>	<u>(11,357)</u>
Profit before income tax expense		15,459	7,821
Income tax expense	10	(3,925)	(1,907)
Net profit for the year		<u>11,534</u>	<u>5,914</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>11,534</u>	<u>5,914</u>

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

Statement of changes in equity
For the year ended 31 December 2010

(Millions of Belarusian roubles)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
31 December 2008	37,724	2,331	40,055
Total comprehensive income for the year	-	5,914	5,914
31 December 2009	37,724	8,245	45,969
Total comprehensive income for the year	-	11,534	11,534
Issue of share capital (Note 16)	19,734	-	19,734
Foreign exchange translation difference (Note 16)	-	(703)	(703)
31 December 2010	57,458	19,076	76,534

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

Statement of cash flows**For the year ended 31 December 2010***(Millions of Belarusian roubles)*

	<i>Notes</i>	2010	2009
Cash flows from operating activities			
Interest received		37,148	23,156
Interest paid		(7,477)	(5,486)
Realised gains less losses from dealing in foreign currencies		5,318	2,228
Fees and commissions received		3,067	2,437
Fees and commissions paid		(1,778)	(744)
Net (losses)/gains from investment securities available-for-sale		(1)	1,236
Other income received		2,779	561
Personnel, rent and other operating expenses paid		(19,375)	(10,902)
Cash flows from operating activities before changes in operating assets and liabilities		19,681	12,486
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		1,352	371
Loans to customers		(79,740)	(9,303)
Other assets		(2,160)	(262)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		8,587	(500)
Amounts due to customers		24,178	12,350
Other liabilities		2,863	253
Net cash flows (used in)/from operating activities before income tax		(25,239)	15,395
Income tax paid		(4,349)	(1,418)
Net cash (used in)/from operating activities		(29,588)	13,977
Cash flows from investing activities			
Proceeds from sale of property and equipment		3	39
Purchase of property and equipment and intangible assets	8,9	(4,391)	(515)
Proceeds from sale of available-for-sale investment securities		-	2,941
Proceeds from redemption of held-to-maturity securities		40,100	-
Purchase of held-to-maturity securities		(39,705)	-
Net cash (used in)/from investing activities		(3,993)	2,465
Cash flows from financing activities			
Proceeds from issue of shares	16	19,734	-
Proceeds from borrowings		28,200	-
Redemption of borrowings		(12,326)	(5,662)
Net cash from/(used in) financing activities		35,608	(5,662)
Effect of exchange rates changes on cash and cash equivalents		(63)	2,162
Net increase in cash and cash equivalents		1,964	12,942
Cash and cash equivalents, beginning	5	29,176	16,234
Cash and cash equivalents, ending	5	31,140	29,176

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

(Millions of Belarusian roubles unless otherwise indicated)

1. Principal activities

CJSC Sombelbank (the "Bank") was founded in 2004 as a joint venture under the laws of the Republic of Belarus. The Bank operates under a general banking license issued by the National Bank of the Republic of Belarus (hereinafter - "NBRB"). The Bank also possesses licenses for securities operations from the Committee on Securities of the Council of Ministers of the Republic of Belarus, as well as other licenses for certain other banking activities.

The Bank extends credits and transfers payments in Belarus and abroad, exchanges currencies and provides banking services to its corporate and retail customers. Its main office is in Minsk and it has 19 centres for banking services in Belarus. The Bank's registered legal address is 25, K. Marx St., Minsk, 220030, Republic of Belarus.

As of 31 December 2010, the Bank's structure includes a Head office, 19 centres for banking services and 5 payment processing centres, located in Minsk and other 11 regional cities.

As of 31 December 2010 and 2009, the Bank had neither subsidiaries nor associates.

As of 31 December, the Bank's outstanding share capital was owned by the following shareholders:

Shareholder	2010 %	2009 %
Getin International S.a.r.l. (Luxemburg)	99.99%	75.05%
SIA Polimer R. (Latvia)	-	24.94%
Other	0.01%	0.01%
Total	100.00%	100.00%

As of 31 December 2010 and 2009, the Bank was ultimately controlled by Mr. Leszek Czarnecki (Poland).

As of 31 December 2009, the SIA Polimer R. (Latvia) was ultimately controlled by Mr. Aleksandr Tolkanica (Belarus).

2. Basis of preparation

General

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

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Belarusian Roubles in accordance with Belarusian accounting and banking legislation and related instructions ("BAS"). These financial statements are based on the Bank's BAS books and records, as adjusted and reclassified in order to comply with IFRS.

The reconciliations of the Bank net assets reported in accordance with BAS to IFRS as at 31 December and reconciliation of total comprehensive income reported under similar principles for the period ended 31 December 2010 is presented below.

	2010		2009	
	<i>Net assets</i>	<i>Total comprehensive income</i>	<i>Net assets</i>	<i>Total comprehensive income</i>
Belarusian Accounting Standards	77,283	11,060	46,197	5,209
IAS 39 adjustments	(6,168)	(4,256)	(1,912)	(1,299)
IAS 1 adjustments	4,614	2,936	1,679	1,544
IAS 37 adjustments	(576)	(304)	(272)	(42)
IAS 16 adjustments	278	554	(139)	-
IAS 12 adjustments	249	245	4	-
IAS 29 adjustments	168	64	104	52
IAS 38 adjustments	(15)	-	(15)	-
IAS 21 adjustments	-	703	-	-
Other adjustments	701	532	323	450
International Financial Reporting Standards	76,534	11,534	45,969	5,914

(Millions of Belarusian roubles unless otherwise indicated)

2. Basis of preparation (continued)

The transition from BAS to IFRS has had no effect upon the reported cash flows generated by the Bank as reconciling items between the BAS presentation and the IFRS presentation have no net impact on the cash flows generated.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example derivative financial instruments have been measured at fair value.

These financial statements are presented in millions of Belarusian roubles ("BYR"), except per share amounts and unless otherwise indicated.

Inflation accounting

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

Reclassifications

The following reclassifications have been made to 2009 balances to conform to the 2010 presentation:

<i>Item of financial statements</i>	<i>As previously reported</i>	<i>Reclassification</i>	<i>As adjusted</i>	<i>Reason for reclassification</i>
Separate presentation of borrowings:				
Amounts due to customers	49,989	(11,644)	38,345	to disclose material items separately
Borrowings	-	11,644	11,644	
Reclassification of loss from derivatives in dealing net gains/(losses) from foreign currencies:				
Net gains from investment securities available-for-sale	675	561	1,236	for consistent presentation
Net gains/(losses) from foreign currencies:				
- dealing	2,789	(561)	2,228	

3. Summary of significant accounting policies

Changes in accounting policies

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

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not affect the Bank's financial statements as the Bank has not entered into any such hedges.

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. This amendment had no impact on the Bank's financial statements since the Bank has no business combinations.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Bank's financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Bank's financial statements.

Improvements to IFRSs

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

- ▶ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- ▶ IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does not review segment assets and liabilities, the Bank does not disclose this information.
- ▶ IAS 7 Statement of Cash Flows explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- ▶ IAS 36 Impairment of Assets: the amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the Bank since it had no business combinations.

Financial assets

Initial recognition

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

Date of recognition

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

'Day 1' profit

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

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of comprehensive income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the income statement when the investments are impaired, as well as through the amortisation process.

Loans and receivables

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

Available-for-sale financial assets

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

Determination of fair value

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

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

Offsetting

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

Reclassification of financial assets

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

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

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

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

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

Cash and cash equivalents

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

Derivative financial instruments

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

Borrowings

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

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of comprehensive income.

Leases

i. Finance - Bank as lessor

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

ii. Operating - Bank as lessor

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

iii. Operating – Bank as lessee

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

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

Loans together with the associated allowance are written off according to the decision of the Bank's Management Board when there is no realistic prospect of future repayment. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of comprehensive income.

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

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognises the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

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

Financial guarantees

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

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Belarus.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Belarus also has various operating taxes, which are assessed on the Bank's activities. These taxes are presented as "Taxes other than income tax" in the statement of comprehensive income.

Property and equipment

Property and equipment are carried at cost (for purchases made before 31 December 2005 at restated cost, using the consumer price index), excluding the costs of day-to-day servicing and less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met.

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

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

	<u>Years</u>
Buildings	100
Furniture and fixtures	6-50
Computers and office equipment	2-5
Motor vehicles	5-8

Leasehold improvements are amortised over the life of the related leased asset. The assets' residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Assets under construction are carried at cost if the recognition criteria are met. When such assets are available for use they are transferred to the respective group of property and equipment.

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Provisions

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

Retirement and other employee benefit obligations

The Bank participates in the State pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Expenses relating to pension scheme contributions are recognised in the statement of

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

comprehensive income as salaries and other personnel expenses. In addition, the Bank has no significant post-retirement benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Non-cash contributions are included into the share capital at the fair value of the contributed assets as of the contribution date.

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Foreign currency translation

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

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

The official exchange rates applied in preparation of financial statements as of 31 December 2010 and 2009 are as follows:

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in 'Net gains from foreign currencies (dealing)'.

As of the date of authorisation of these financial statements for issue the official exchange rates were as follows: USD/BYR – 3,052.00, EUR/BYR – 4,425.09, RUR/BYR – 108.27.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRS 9 "Financial Instruments"

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

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Bank expects that these amendments will have no impact on the Bank's financial position.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

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

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of significant accounting policies (continued)

Improvements to IFRSs

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

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

4. Significant accounting judgments and estimates

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

Fair value of financial instruments

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

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in 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 the observable data indicating that there has been an adverse change in the payment status of borrowers in a group 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 and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred income tax assets

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

(Millions of Belarusian roubles unless otherwise indicated)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2010	2009
Cash on hand	17,592	11,315
Current accounts with the National Bank of the Republic of Belarus	8,488	4,743
Current accounts with other credit institutions	5,060	3,335
Time deposits with credit institutions up to 90 days	-	9,783
Cash and cash equivalents	31,140	29,176

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2010	2009
Obligatory reserve with the National Bank of the Republic of Belarus	274	700
Time deposits for more than 90 days	60	120
Amounts due from credit institutions	334	820

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

As of 31 December 2010, inter-bank time deposits of BYR 60 million (2009 – BYR 120 million) were placed with one Belarusian bank.

7. Loans to customers

Loans to customers comprise:

	2010	2009
Consumer lending	115,744	46,942
Corporate lending	29,341	22,291
Small business lending	862	329
Gross loans to customers	145,947	69,562
Less – Allowance for impairment	(4,147)	(4,673)
Loans to customers	141,800	64,889

(Millions of Belarusian roubles unless otherwise indicated)

7. Loans to customers (continued)

Allowance for impairment of loans to customers

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

	Corporate lending 2010	Small business lending 2010	Consumer lending 2010	Total 2010
At 1 January 2010	820	7	3,846	4,673
Charge (reversal) for the year	(433)	7	2,897	2,471
Amounts written off	-	-	(2,997)	(2,997)
At 31 December 2010	387	14	3,746	4,147
Individual impairment	-	-	25	25
Collective impairment	387	14	3,721	4,122
	387	14	3,746	4,147
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	-	-	38	38
	Corporate lending 2009	Small business lending 2009	Consumer lending 2009	Total 2009
At 1 January 2009	402	1	1,474	1,877
Charge for the year	418	6	3,340	3,764
Amounts written off	-	-	(968)	(968)
At 31 December 2009	820	7	3,846	4,673
Individual impairment	590	-	195	785
Collective impairment	230	7	3,651	3,888
	820	7	3,846	4,673
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,961	-	372	3,333

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, as of 31 December 2010, comprised BYR 24 million (2009 – BYR 558 million).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as of 31 December 2010 amounts to BYR nil million (2009 – BYR 7,393 million). In accordance with Belarusian legislation, loans may only be written off with the approval of the Management Board and, in certain cases, with the respective decision of the court.

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7. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- ▶ For corporate and small business lending, charges over real estate properties, inventory and trade receivables,
- ▶ For consumer lending, surety of third parties and mortgages over residential properties.

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

Concentration of loans to customers

As of 31 December 2010, the Bank had a concentration of loans represented by BYR 19,514 million due from the ten largest third party borrowers (13% of gross loan portfolio) (2009 – BYR 17,031 million or 25%). An allowance of BYR 238 million (2009 – BYR 274 million) was recognised against these loans.

Loans have been extended to the following types of customers:

	2010	2009
Individuals	115,744	46,942
Private companies	27,086	17,745
State companies	3,117	4,875
	145,947	69,562

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

	2010	2009
Individuals	115,744	46,942
Trading enterprises	22,094	17,864
Manufacturing	3,521	1,751
Services	1,770	782
Leasing	1,074	175
Real estate construction	-	1,520
Other	1,744	528
	145,947	69,562

Finance lease receivables

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

	Not later than 1 year	Later than 1 year and not later than 5 years
Gross investment in finance leases	560	696
Unearned future finance income on finance leases	(196)	(128)
Net investment in finance leases	364	568

(Millions of Belarusian roubles unless otherwise indicated)

7. Loans to customers (continued)

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

	Not later than 1 year	Later than 1 year and not later than 5 years
Gross investment in finance leases	63	2
Unearned future finance income on finance leases	(11)	-
Net investment in finance leases	52	2

8. Property and equipment

The movements in property and equipment were as follows:

	Buildings	Furniture and fixtures	Computers and office equipment	Motor vehicles	Leasehold improvements	Assets under construction	Total
Cost							
31 December 2009	76	1,325	1,126	164	-	4	2,695
Additions	-	1,719	628	77	575	525	3,524
Disposals	-	(5)	(2)	-	-	-	(7)
Transfers	-	-	-	-	3	(3)	-
31 December 2010	76	3,039	1,752	241	578	526	6,212
Accumulated depreciation							
31 December 2009	(3)	(348)	(527)	(56)	-	-	(934)
Depreciation charge	(1)	(185)	(189)	(25)	(24)	-	(424)
Disposals	-	2	2	-	-	-	4
31 December 2010	(4)	(531)	(714)	(81)	(24)	-	(1,354)
Net book value:							
31 December 2009	73	977	599	108	-	4	1,761
31 December 2010	72	2,508	1,038	160	554	526	4,858
Cost							
31 December 2008	76	1,128	1,069	164	-	26	2,463
Additions	-	221	63	-	-	4	288
Disposals	-	(24)	(6)	-	-	(26)	(56)
31 December 2009	76	1,325	1,126	164	-	4	2,695
Accumulated depreciation							
31 December 2008	(3)	(230)	(377)	(33)	-	-	(643)
Depreciation charge	-	(129)	(156)	(23)	-	-	(308)
Disposals	-	11	6	-	-	-	17
31 December 2009	(3)	(348)	(527)	(56)	-	-	(934)
Net book value:							
31 December 2008	73	898	692	131	-	26	1,820
31 December 2009	73	977	599	108	-	4	1,761

(Millions of Belarusian roubles unless otherwise indicated)

9. Intangible assets

The movements in intangible assets were as follows:

	Computer software and licenses
Cost	
31 December 2009	597
Additions	867
Disposals	(432)
31 December 2010	1,032
Accumulated amortisation	
31 December 2009	(297)
Amortisation charge	(201)
Disposals	432
31 December 2010	(66)
Net book value:	
31 December 2009	300
31 December 2010	966

	Computer software and licences
Cost	
31 December 2008	370
Additions	227
31 December 2009	597
Accumulated amortisation	
31 December 2008	(150)
Amortisation charge	(147)
31 December 2009	(297)
Net book value:	
31 December 2008	220
31 December 2009	300

10. Taxation

The corporate income tax expense comprises:

	2010	2009
Current tax charge	4,170	1,907
Deferred tax credit	(245)	-
Income tax expense	3,925	1,907

Belarusian legal entities must file individual tax declarations. The tax rate for banks on profits other than on state securities was 26.28% for 2010 (2009 - 26.28%). Since 1 January 2011, a tax rate of 24% becomes effective. The Bank calculates deferred tax assets and liabilities as of 31 December 2010 using 24% tax rate.

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10. Taxation (continued)

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

	2010	2009
Profit before income tax	15,459	7,821
Statutory tax rate	26.28%	26.28%
Theoretical income tax expense at the statutory rate	4,063	2,055
Capital expenditure tax exemption	(527)	(1)
Tax on share capital foreign exchange translation difference	(185)	-
Non-taxable income	(132)	(94)
Non-deductible expenditures:		
- salaries and related expenses	353	13
- provision for bonuses	199	17
- taxes other than income tax	95	36
- insurance expenses	23	-
- repairs and maintenance	11	51
- other	98	21
Change in unrecognised deferred tax assets	(63)	(191)
Statutory revaluation tax of property and equipment	(33)	-
Effect of change in tax rate	23	-
Income tax expense	3,925	1,907

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

	<u>Origination and reversal of temporary differences</u>			<u>Origination and reversal of temporary differences</u>			
	2008	<i>In the income statement</i>	<i>In other compre- hensive income</i>	2009	<i>In the income statement</i>	<i>In other compre- hensive income</i>	2010
Tax effect of deductible temporary differences:							
Amounts due from credit institutions	-	-	-	-	6,670	-	6,670
Other liabilities	59	47	-	106	441	-	547
Other assets	105	(56)	-	49	230	-	279
Tax liabilities	-	-	-	-	48	-	48
Property and equipment	23	(14)	-	9	(9)	-	-
Loans to customers	67	(67)	-	-	-	-	-
Gross deferred tax asset	254	(90)	-	164	7,380	-	7,544
Unrecognised deferred tax assets	(254)	191	-	(63)	63	-	-
Deferred tax assets	-	101	-	101	7,443	-	7,544
Tax effect of taxable temporary differences:							
Amounts due to credit institutions	-	-	-	-	(6,738)	-	(6,738)
Loans to customers	-	(73)	-	(73)	(381)	-	(454)
Property and equipment	-	-	-	-	(107)	-	(107)
Amounts due from credit institutions	-	(28)	-	(28)	28	-	-
Deferred tax liabilities	-	(101)	-	(101)	(7,198)	-	(7,299)
Deferred tax assets	-	-	-	-	245	-	245

(Millions of Belarusian roubles unless otherwise indicated)

11. Other assets and liabilities

Other assets comprise:

	<u>2010</u>	<u>2009</u>
Fines, penalties accrued	1,776	-
Prepaid expenses	471	30
Derivative financial assets	442	115
Prepayments	418	339
Office materials	350	94
Prepaid taxes other than income tax	325	60
Assets received as settlement of debt	138	168
Current income tax asset	21	-
Other	290	81
	<u>4,231</u>	<u>887</u>
Less – Allowance for impairment of other assets (Note 12)	(1,246)	-
Other assets	<u>2,985</u>	<u>887</u>

The allowance for impairment of other assets is established for fines, penalties accrued.

Other liabilities comprise:

	<u>2010</u>	<u>2009</u>
Accruals of bonuses	1,544	-
Accrual for unused vacations	576	294
Settlements with employees	560	154
Deferred income	425	158
Tax liabilities other than income tax	408	-
Accounts payable and sundry creditors	363	141
Accrued expenses	132	314
Derivative financial liabilities	3	61
Other	40	91
	<u>4,051</u>	<u>1,213</u>
Other liabilities	<u>4,051</u>	<u>1,213</u>

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

	<u>2010</u>		<u>2009</u>	
	<u>Notional principal</u>	<u>Fair values Asset Liability</u>	<u>Notional principal</u>	<u>Fair value Asset Liability</u>
Foreign exchange contracts				
BYR-EUR swap contract with the National Bank of Republic of Belarus	24,100	442 -	-	-
USD-BYR forwards with local bank	981	- (3)	6,825	115 (61)
Total derivative assets/(liabilities)		<u>442 (3)</u>		<u>115 (61)</u>

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

Forwards

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

Swaps

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

(Millions of Belarusian roubles unless otherwise indicated)

12. Other impairments and provisions

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

	<u>Other assets</u>
31 December 2008 and 2009	-
Charge	1,246
31 December 2010	1,246

The allowance for impairment of assets is deducted from the carrying amounts of the related assets.

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2010</u>	<u>2009</u>
Time deposits and loans	8,667	-
Current accounts	24	120
Amounts due to credit institutions	8,691	120

14. Amounts due to customers

Amounts due to customers include the following:

	<u>2010</u>	<u>2009</u>
Time deposits	45,719	29,379
Current accounts	17,131	8,966
Amounts due to customers	62,850	38,345
Held as security against loans to customers	240	342
Held as security against letters of credit	-	466

As of 31 December 2010, amounts due to customers of BYR 63,441 million (68%) were due to the ten largest customers (2009 – BYR 29,347 million (59%)).

Included in time deposits are deposits of individuals of BYR 10,951 million (2009 – BYR 11,990 million). In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within 5 days upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(Millions of Belarusian roubles unless otherwise indicated)

14. Amounts due to customers (continued)

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

	<u>2010</u>	<u>2009</u>
Private enterprises	42,666	23,594
Individuals	11,716	12,436
State and budgetary organisations	8,468	2,315
Amounts due to customers	<u>62,850</u>	<u>38,345</u>

An analysis of customer accounts by economic sector follows:

	<u>2010</u>	<u>2009</u>
Insurance	20,406	11,271
Individuals	11,716	12,436
Services	10,014	2,356
Trade and commerce	9,894	9,464
Manufacturing	7,771	1,179
Real estate construction	630	242
Transport	364	8
Tourism	232	435
Finance	83	150
Machinery	39	34
Other	1,701	770
Amounts due to customers	<u>62,850</u>	<u>38,345</u>

15. Borrowings

As of 31 December 2010, the Bank had a subordinated loan outstanding from a company under common control of BYR 29,839 million denominated in Euro (EUR 7.4 million) (2009 – the Bank had a loan outstanding from a company under common control of BYR 11,644 million denominated in US dollars (USD 4 million) with original maturity in one year). The loan was granted in two tranches on 25 May 2010 and on 18 November 2010; each tranche matures in six years and bears interest at a rate of LIBOR 12M+6% (7.42% p.a. as of 31 December 2010).

16. Equity

The table below presents the movement of ordinary shares authorised, fully paid and outstanding:

	<u>Number of shares</u>	<u>Nominal amount</u>	<u>Inflation adjustment</u>	<u>Total</u>
	<u>Ordinary</u>	<u>Ordinary</u>		
31 December 2008 and 2009	10,765	35,589	2,135	37,724
Increase in share capital	5,969	19,734	-	19,734
31 December 2010	<u>16,734</u>	<u>55,323</u>	<u>2,135</u>	<u>57,458</u>

As of 31 December 2010, the number of authorised ordinary shares is 16,734 (2009 – 10,765) with a nominal value per share of BYR 3.306 million (2009 – BYR 3.306 million). All authorised shares have been issued and fully paid.

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

On January 2010 the shareholders of the Bank approved an issue of 1,331 ordinary shares and its distribution between Getin International S.a.r.l. (Luxembourg) and SIA Polimer R. (Latvia) in proportion to their share in capital for 999 and 332 ordinary shares, respectively. The total consideration received for these shares was comprised of cash for the total amount of BYR 4,400 million. This share issue was registered by NBRB on 30 March 2010.

On November 2010 SIA Polimer R. (Latvia) sold all its shares to Getin International S.a.r.l. (Luxembourg), which became owner of 99.99% the Bank's share capital.

On November 2010 the shareholders of the Bank approved an issue of 4,638 ordinary shares and its distribution to Getin International S.a.r.l. (Luxembourg). The total consideration received for these shares was comprised of cash for the total amount of BYR 15,334 million. This share issue was registered by NBRB on 29 November 2010.

(Millions of Belarusian roubles unless otherwise indicated)

16. Equity (continued)

The Bank incurred negative exchange differences directly attributable to the share issue for the amount of BYR 703 million, which were accounted for as a deduction from retained earnings.

As of 31 December 2010, the statutory fund of the Bank in accordance with Belarusian statutory accounting rules was BYR 55,323 million (EUR 13.9 million).

No dividends were declared and paid out to the shareholders of the Bank in 2010.

17. Commitments and contingencies

Operating environment

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

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

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

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

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

Legal

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

Taxation

Belarusian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period.

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

(Millions of Belarusian roubles unless otherwise indicated)

17. Commitments and contingencies (continued)

Commitments and contingencies

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

	<u>2010</u>	<u>2009</u>
Credit related commitments		
Guarantees issued	320	195
Letters of credit	-	466
Commitments and contingencies (before deducting collateral)	<u>320</u>	<u>661</u>
Less – Cash held as security against letters of credit	-	(466)
Commitments and contingencies	<u><u>320</u></u>	<u><u>195</u></u>

The Bank had no significant commitments under non-cancellable contracts for operating leases as of 31 December 2010 (2009 – nil).

The Bank had no significant capital expenditure commitments as of 31 December 2010 (2009 – nil).

Insurance

The CJSC Sombelbank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in the Republic of Belarus at present.

18. Net fee and commission income

Net fee and commission income comprises:

	<u>2010</u>	<u>2009</u>
Settlement operations	2,300	1,230
Currency conversion operations	881	1,247
Operations with credit institutions	1	2
Other	15	125
Fee and commission income	<u>3,197</u>	<u>2,604</u>
Settlements operations	(1,692)	(727)
Operations with credit institutions	(174)	(119)
Currency conversion operations	(29)	(22)
Other	(2)	(2)
Fee and commission expense	<u>(1,897)</u>	<u>(870)</u>
Net fee and commission income	<u><u>1,300</u></u>	<u><u>1,734</u></u>

19. Other income

	<u>2010</u>	<u>2009</u>
Penalties and fines	2,314	397
Repayment of debts previously written off	705	137
Rental income	174	-
Other	116	27
Total other income	<u>3,309</u>	<u>561</u>

(Millions of Belarusian roubles unless otherwise indicated)

20. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2010	2009
Salaries and bonuses	7,268	3,383
Social security costs	1,640	1,118
Personnel expenses	8,908	4,501
IT expenses	1,663	1,159
Marketing and advertising	1,189	461
Communications	502	312
Office supplies	454	68
Legal and consultancy	390	411
Encashment expenses	267	164
Security	226	134
Utilities	205	114
Maintenance expenses	186	97
Contributions to deposits insurance fund	141	94
Vehicle service expenses	140	74
Insurance	113	72
Other	881	201
Other operating expenses	6,357	3,361

21. Risk management

Introduction

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

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

Risk management structure

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

Board of Directors

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

Management Board

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

Risk Committee (Credit Committee)

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

(Millions of Belarusian roubles unless otherwise indicated)

21. Risk management (continued)

Risk Management Units

The Risk Management Units are responsible for implementing and maintaining risk related procedures to ensure an independent control process as well as evaluating risks of new products and structured deals. They are also responsible for the collection of ultimate information in the risk assessment system and risk reporting.

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

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

Internal Audit

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

Risk measurement and reporting systems

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

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

Risk mitigation

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

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

(Millions of Belarusian roubles unless otherwise indicated)

21. Risk management (continued)

Excessive risk concentration

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

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

Credit risk

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

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

Derivative financial instruments

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

Credit-related commitments risks

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

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

	<i>Notes</i>	<i>Maximum exposure 2010</i>	<i>Maximum exposure 2009</i>
Cash and cash equivalents (excluding cash on hand)	5	13,548	17,861
Amounts due from credit institutions (excluding obligatory reserves at National Bank)	6	60	120
Derivative financial assets	11	442	115
Loans to customers	7	141,800	64,889
Other assets	11	2,066	81
		157,916	83,066
Financial commitments and contingencies	17	320	661
Total credit risk exposure		158,236	83,727

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, reference should be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

(Millions of Belarusian roubles unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset subject to credit risk, based on the Bank's credit rating system.

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

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

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

	Notes	<i>Neither past due nor impaired</i>			<i>Past due but not impaired 2010</i>	<i>Individually impaired 2010</i>	<i>Total 2010</i>
		<i>High grade 2010</i>	<i>Standard grade 2010</i>	<i>Sub-standard grade 2010</i>			
Amounts due from credit institutions	6	274	60	-	-	-	334
Loans to customers	7						
Corporate lending		-	26,548	2,427	366	-	29,341
Small business lending		-	862	-	-	-	862
Consumer lending		-	106,440	-	9,266	38	115,744
Total		274	133,910	2,427	9,632	38	146,281

	Notes	<i>Neither past due nor impaired</i>			<i>Past due but not impaired 2009</i>	<i>Individually impaired 2009</i>	<i>Total 2009</i>
		<i>High grade 2009</i>	<i>Standard grade 2009</i>	<i>Sub-standard grade 2009</i>			
Amounts due from credit institutions	6	700	120	-	-	-	820
Loans to customers	7						
Corporate lending		-	19,306	-	24	2,961	22,291
Small business lending		-	329	-	-	-	329
Consumer lending		-	40,367	-	6,203	372	46,942
Total		700	60,122	-	6,227	3,333	70,382

(Millions of Belarusian roubles unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

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

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

	<i>Less than 30 days 2010</i>	<i>31 to 60 days 2010</i>	<i>61 to 90 days 2010</i>	<i>More than 90 days 2010</i>	<i>Total 2010</i>
Loans to customers					
Corporate lending	-	-	-	366	366
Consumer lending	4,497	819	372	3,578	9,266
Total	4,497	819	372	3,944	9,632

	<i>Less than 30 days 2009</i>	<i>31 to 60 days 2009</i>	<i>61 to 90 days 2009</i>	<i>More than 90 days 2009</i>	<i>Total 2009</i>
Loans to customers					
Corporate lending	24	-	-	-	24
Consumer lending	1,825	487	318	3,573	6,203
Total	1,849	487	318	3,573	6,227

See Note 7 for more detailed information with respect to the allowance for impairment of loans to customers.

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

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

	2010	2009
Loans to customers		
Corporate lending	-	435
Consumer lending	112	129
Total	112	564

(Millions of Belarusian roubles unless otherwise indicated)

21. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence yet of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

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

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

	2010				2009			
	Republic of Belarus	OECD	CIS and other foreign countries	Total	Republic of Belarus	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	26,224	4,558	358	31,140	25,841	-	3,335	29,176
Amounts due from credit institutions	334	-	-	334	820	-	-	820
Loans to customers	141,800	-	-	141,800	64,889	-	-	64,889
Other assets	2,985	-	-	2,985	442	-	14	456
	171,343	4,558	358	176,259	91,992	-	3,349	95,341
Liabilities:								
Amounts due to credit institutions	8,690	-	1	8,691	120	-	-	120
Amounts due to customers	62,703	-	147	62,850	37,548	630	167	38,345
Borrowings	-	29,839	-	29,839	-	11,644	-	11,644
Other liabilities	3,265	786	-	4,051	919	-	-	919
	74,658	30,625	148	105,431	38,587	12,274	167	51,028
Net assets/(liabilities)	96,685	(26,067)	210	70,828	53,405	(12,274)	3,182	44,313

(Millions of Belarusian roubles unless otherwise indicated)

21. Risk management (continued)

Liquidity risk and funding management

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

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

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

	NBRB required minimum ratio	2010	2009
“Current Liquidity Ratio” (assets receivable or realisable within 30 days/ liabilities repayable within 30 days)	70.0%	254.9%	332.6%
“Short-Term Liquidity Ratio” (assets receivable or realisable within one year/ liabilities repayable within one year)	1	4.4	8.5
“Quick Liquidity Ratio” (assets on demand/ liabilities on demand)	20.0%	853.9%	738.0%

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2010					
Amounts due to credit institutions	8,716	-	-	-	8,716
Amounts due to customers	44,546	15,126	6,994	-	66,666
Borrowings	545	1,636	8,725	30,474	41,380
Other liabilities	3,180	463	-	-	3,643
Total undiscounted financial liabilities	56,987	17,225	15,719	30,474	120,405

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 31 December 2009					
Amounts due to credit institutions	120	-	-	-	120
Amounts due to customers	14,662	9,640	18,370	-	42,672
Borrowings	366	12,193	-	-	12,559
Other liabilities	1,213	-	-	-	1,213
Total undiscounted financial liabilities	16,361	21,833	18,370	-	56,564

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

(Millions of Belarusian roubles unless otherwise indicated)

21. Risk management (continued)

Liquidity risk and funding management (continued)

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2010	296	-	24	-	320
2009	410	56	195	-	661

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

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

The Bank has received significant funds from a company under common control. Please refer to Note 23 for details. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

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

Included in due to customers are term deposits of individuals. In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within five days upon request of a depositor (refer to Note 14).

Market risk

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

Market risk – non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The management of the Bank estimated the sensitivity of net interest income based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010 and considered it as being not-significant for the purpose of the preparation of these financial statements.

Currency risk

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

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

(Millions of Belarusian roubles unless otherwise indicated)

21. Risk management (continued)

Currency	Change in	Effect on profit	Change in	Effect on profit
	currency rate in		currency rate in	
	%	before tax	%	before tax
	2010	2010	2009	2009
USD	+30.00%	(433)	+ 20.10%	(1,959)
USD	+3.00%	(43)	-20.10%	1,959
EUR	+30.00%	(11,136)	+ 21.80%	(380)
EUR	+3.00%	(1,114)	-21.80%	380

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall. As of 31 December 2010 and 2009, the Bank had no instruments exposed to such risk.

Operational risk

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

22. Fair values of financial instruments

Fair value of financial assets carried at fair value

The Bank uses the following valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

As of 31 December 2010	Level 2	Total
Financial assets		
Derivative financial asset on swap deals	442	442
	442	442
Financial liabilities		
Derivative financial liability on forward deals	(3)	(3)
	(3)	(3)
As of 31 December 2009		
Financial assets		
Derivative financial asset on forward deals	115	115
	115	115
Financial liabilities		
Derivative financial liability on forward deals	61	61
	61	61

(Millions of Belarusian roubles unless otherwise indicated)

22. Fair values of financial instruments (continued)

Financial instruments recorded at fair value

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

Derivatives

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

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

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

	Carrying value 2010	Fair value 2010	Unrecognised gain/(loss) 2010	Carrying value 2009	Fair value 2009	Unrecognised gain/(loss) 2009
Financial assets						
Cash and cash equivalents	31,140	31,140	-	29,176	29,176	-
Amounts due from credit institutions	334	334	-	820	820	-
Loans to customers	141,800	142,192	392	64,889	64,889	-
Other assets	2,508	2,508	-	196	196	-
Financial liabilities						
Amounts due to credit institutions	8,691	8,691	-	120	120	-
Amounts due to customers	62,850	72,505	(9,655)	38,345	38,345	-
Borrowings	29,839	29,839	-	11,644	11,644	-
Other liabilities	3,643	3,643	-	1,213	1,213	-
Total unrecognised change in unrealised fair value			(9,263)			-

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. Such financial assets and liabilities are cash and cash equivalents, amounts due from credit institutions, amounts due to credit institutions. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed and variable rate financial instruments

For quoted debt instruments, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Millions of Belarusian roubles unless otherwise indicated)

23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 20 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2010			2009		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	31,140	-	31,140	29,176	-	29,176
Amounts from credit institutions	334	-	334	-	820	820
Loans to customers	95,459	46,341	141,800	31,632	33,257	64,889
Property and equipment	-	4,858	4,858	-	1,761	1,761
Intangible assets	-	966	966	-	300	300
Deferred income tax assets	-	245	245	-	-	-
Other assets	1,224	1,761	2,985	887	-	887
Total	128,157	54,171	182,328	61,695	36,138	97,833
Amounts to credit institutions	8,691	-	8,691	120	-	120
Amounts due to customers	56,154	6,696	62,850	32,959	5,386	38,345
Borrowings	442	29,397	29,839	11,644	-	11,644
Current tax liability	363	-	363	542	-	542
Other liabilities	4,051	-	4,051	1,213	-	1,213
Total	69,701	36,093	105,794	46,478	5,386	51,864
Net	58,456	18,078	76,534	15,217	30,752	45,969

The maturity analysis above does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above.

Included in due to customers are term deposits of individuals. In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within five days upon demand of a depositor. However, the Bank does not expect that many customers will request repayment on earlier dates as in such case accrued interest would be recalculated using the "on-demand" deposit interest rate. These balances are therefore included in accordance with their contractual maturity.

24. Related party disclosures

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

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

(Millions of Belarusian roubles unless otherwise indicated)

24. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2010		2009	
	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Entities under common control</i>	<i>Key management personnel</i>
Borrowings outstanding at 1 January, gross	11,644	-	13,479	-
Borrowings issued during the year	28,200	-	-	-
Borrowings repayments during the year	(12,326)	-	(5,662)	-
Other movements	2,351	-	3,827	-
Borrowings outstanding at 31 December, gross	29,869	-	11,644	-
Loans outstanding at 1 January, gross	-	293	-	204
Loans issued during the year	-	147	-	115
Loan repayments during the year	-	(227)	-	(26)
Loans outstanding at 31 December, gross	-	213	-	293
Less: allowance for impairment at 31 December	-	(2)	-	(3)
Loans outstanding at 31 December, net	-	211	-	290
Deposits at 1 January	-	306	-	26
Deposits received during the year	9,508	-	-	673
Deposits repaid during the year	(10,495)	(284)	-	(393)
Other movements	987	-	-	-
Deposits at 31 December	-	22	-	306
Current accounts at 31 December	-	-	162	-
Commitments and guarantees received	-	355	-	319

The income and expense arising from related party transactions are as follows:

	2010		2009	
	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Entities under common control</i>	<i>Key management personnel</i>
Interest income on loans	377	27	-	31
Impairment charge for loans	-	(2)	-	(3)
Interest expense on borrowings	(1,723)	-	(1,826)	-
Interest expense on deposits	-	(7)	-	(30)
Fee and commission expense	(110)	-	-	-
Personnel expenses	-	(3,700)	-	(1,733)

Compensation of key management personnel was comprised of the following:

	2010	2009
Salaries and other short-term benefits	3,104	1,312
Social security costs	596	421
Total key management personnel compensation	3,700	1,733

(Millions of Belarusian roubles unless otherwise indicated)

25. Capital adequacy

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

As of 31 December 2010, the Bank had complied in full with all its externally imposed capital requirements.

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

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

NBRB capital adequacy ratio

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

	<u>2010</u>	<u>2009</u>
Main capital	65,494	40,639
Additional capital	41,026	5,485
Less: deductions from capital	-	-
Total regulatory capital	<u>106,520</u>	<u>46,124</u>
Risk weighted assets	<u>148,355</u>	<u>78,468</u>
Capital adequacy ratio	71.80%	58.78%

Capital adequacy ratio under Basel Capital Accord 1988

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

	<u>2010</u>	<u>2009</u>
Tier 1 capital	76,534	45,969
Tier 2 capital	29,397	-
Total capital	<u>105,931</u>	<u>45,969</u>
Risk weighted assets	<u>152,218</u>	<u>70,912</u>
Tier 1 capital ratio	50.28%	64.83%
Total capital ratio	69.59%	64.83%