BELGAZPROMBANK

Financial Statements
For the Year Ended 31 December 2008

BELGAZPROMBANK

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Belorussian-Russian Belgazprombank Joint Stock ("Belgazprombank" or the "Bank").

Management is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of the Bank as at the end of the day of 31 December 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Belarus;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended 31 December 2008 were authorized for issue on 26 March 2009 by the Chairman of the Board of Belgazprombank.

Chairman of the Board
V. Babariko
26 March 2009
Minsk

Chief Accountant
T. Pivovar
26 March 2009
Minsk

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Belgazprombank (the "Bank"), which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank for the year ended 31 December 2007 were audited by other auditor, whose report, dated 21 April 2008, expressed an unqualified opinion on those statements.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Belgazprombank as at 31 December 2008, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 4, describing the effect of restatement on the financial statements for the year ended 31 December 2007.

Deloitte & Touche

26 March 2009
Minsk

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007 (restated)
Interest income	5, 28	159,075	84,277
Interest expense	5, 28	(81,340)	(46,236)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		77,735	38,041
Provision for impairment losses on interest bearing assets	6, 28	(12,754)	(6,250)
NET INTEREST INCOME		64,981	31,791
Net gain on foreign exchange operations	7	25,528	13,614
Fee and commission income	8, 28	36,080	20,434
Fee and commission expense	8	(11,494)	(5,636)
Net loss on investments available for sale		(41)	(51)
Net (loss)/gain on financial assets at fair value through profit or loss	28	(6,798)	1,033
Recovery of other provisions/(other provisions)	6	493	(586)
Other income		1,981	862
NET NON-INTEREST INCOME		45,749	29,670
OPERATING INCOME		110,730	61,461
OPERATING EXPENSES	9, 28	(66,016)	(41,066)
PROFIT BEFORE INCOME TAX		44,714	20,395
Income tax expense	10	(10,916)	(5,622)
NET PROFIT		33,798	14,773

Chairman of the Board
V. Babariko
26 March 2009
Minsk

Chief accountant
T. Pivovar
26 March 2009
Minsk

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

BELGAZPROMBANK

BALANCE SHEET
AS AT 31 DECEMBER 2008
(in millions of Belarusian Roubles)

	Notes	31 December 2008	31 December 2007 (restated)
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	11	82,117	54,572
Precious metals		646	553
Financial assets at fair value through profit or loss	12, 28	59,001	66,558
Derivative financial instruments	13, 28	1,342	181
Due from banks	14, 28	102,050	69,593
Loans to customers	15, 28	1,010,375	647,537
Investments available for sale	16	164,359	70,173
Non-current assets held for sale	17	13,518	-
Property, equipment and intangible assets	18	37,551	27,325
Other assets	19	7,408	6,071
TOTAL ASSETS		1,478,367	942,563
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments	13	1,763	472
Loans from the National Bank of the Republic of Belarus	20	94,662	20,232
Due to banks and other financial institutions	21, 28	516,387	411,387
Customer accounts	22, 28	515,234	402,626
Debt securities issued	23	49,661	1
Current income tax liabilities		881	528
Deferred income tax liabilities	10	-	1,297
Other liabilities	24	7,394	4,365
Subordinated debt	25, 28	11,000	10,750
Total liabilities		1,196,982	851,658
EQUITY:			
Share capital	26	226,641	65,766
Investments available for sale revaluation reserve		(276)	56
Retained earnings		55,020	25,083
Total equity		281,385	90,905
TOTAL LIABILITIES AND EQUITY		1,478,367	942,563

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26 March 2009
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BELGAZPROMBANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(in millions of Belarusian Roubles)

	Notes	Share capital	Investments available for sale revaluation reserve	Retained earnings	Total equity
31 December 2006		34,124	61	13,125	47,310
Share capital increase by issue of ordinary shares	26	31,642	-	-	31,642
Fair value adjustment on investments available for sale		-	(5)	-	(5)
Net profit		-	-	14,773	14,773
Dividends declared	26	-	-	(2,815)	(2,815)
31 December 2007		65,766	56	25,083	90,905
Share capital increase by issue of ordinary shares	26	160,875	-	-	160,875
Fair value adjustment on investments available for sale		-	(332)	-	(332)
Net profit		-	-	33,798	33,798
Dividends declared	26	-	-	(3,861)	(3,861)
31 December 2008		226,641	(276)	55,020	281,385

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26 March 2009
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		44,714	20,395
Adjustments for:			
Provision for impairment losses on interest bearing assets		12,754	6,250
(Recovery of other provisions)/other provisions		(493)	586
Depreciation and amortization expense		2,912	2,068
Loss on disposal of investments available for sale		41	51
Loss/(gain) on disposal of property, equipment and intangible assets		27	(2,910)
Compensation payable to employees		3,980	998
Change in interest accruals, net		(9,355)	(2,762)
Translation differences, net		(9,824)	(336)
Net change in fair value of derivative financial instruments		130	(181)
Cash flows from operating activities before changes in operating assets and liabilities		44,886	24,159
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		(7,256)	(3,817)
Due from banks		25,216	(25,585)
Precious metals		(93)	(385)
Financial assets at fair value through profit or loss		7,138	(62,556)
Loans to customers		(366,823)	(316,585)
Other assets		(783)	(3)
Increase/(decrease) in operating liabilities:			
Loans from the National Bank of the Republic of Belarus		74,054	(2,692)
Due to banks and other financial institutions		213,325	145,550
Customer accounts		115,078	234,635
Other liabilities		1,650	1,828
Cash inflow/(outflow) from operating activities before taxation		106,392	(5,451)
Income tax paid		(11,860)	(4,825)
Net cash inflow/(outflow) from operating activities		94,532	(10,276)

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

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007 (restated)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(15,689)	(7,140)
Proceeds on sale of property, equipment and intangible assets		235	3,110
Purchase of investments available for sale, net		(94,637)	(13,845)
Net cash outflow from investing activities		(110,091)	(17,875)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		160,875	31,642
Repayment of subordinated debt		-	(10,648)
Raising finance by issuing debt securities/(repayment of debt securities issued), net		47,977	(109)
(Repayment)/attraction of loans from international financial institutions, net		(111,457)	10,955
Dividends paid		(3,861)	(2,815)
Net cash inflow from financing activities		93,534	29,025
NET INCREASE IN CASH AND CASH EQUIVALENTS		77,975	874
Effect of changes in foreign exchange rates on cash and cash equivalents		(1,650)	1,229
CASH AND CASH EQUIVALENTS, beginning of year	11	43,542	41,439
CASH AND CASH EQUIVALENTS, end of year	11	119,867	43,542

Interest paid and received by the Bank during the year ended 31 December 2008 amounted to BYR 83,014 million and BYR 148,046 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2007 amounted to BYR 46,611 million and BYR 82,303 million, respectively.

Chairman of the Board
V. Babariko
26 March 2009
Minsk

Chief accountant
T. Pivovar
26 March 2009
Minsk

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

1. ORGANISATION

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

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

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

As at 31 December 2008 the Bank had 8 regional branches in the Republic of Belarus.

As at 31 December 2008 and 2007 the structure of the Bank's share capital was as follows:

Shareholder	31 December 2008, %	31 December 2007, %
JSC "Gazprom" (Russian Federation)	48.08	42.73
Gazprombank (Open Joint Stock Company) (Russian Federation)	48.08	42.73
JSC "Beltransgaz" (Republic of Belarus)	2.77	10.62
State Property Committee of the Republic of Belarus	1.03	3.90
Other	0.04	0.02
Total	100.00	100.00

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

These financial statements were authorized for issue by the Chairman of the Board of the Bank on 26 March 2009.

2. BASIS OF PRESENTATION

Accounting basis

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

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

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

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

Key assumptions

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

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

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

	31 December 2008	**31 December 2007**
Allowance for impairment losses on loans to customers	25,113	13,010
Equity investments available for sale	83	95
Deferred income tax assets not recognized	53	-
Derivative financial instruments (asset)	1,342	181
Derivative financial instruments (liability)	1,763	472
Provisions for financial guarantees and letters of credit	54	604

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

The Bank uses management’s and risk managers' judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical or macroeconomic data relating to similar borrowers or forecasting data relating to a borrower’s business. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data and forecasts indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

Available for sale financial instruments
Available for sale financial instruments are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable market data.

The Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (a) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (b) the impact that recognizing a change in the valuations would have on the assets reported on its balance sheet as well as its financial results of activity could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the financial results of the Bank.

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

Derivative financial instruments
Derivative financial instruments, representing foreign currency and securities forwards do not have an active market and are measured using interest rates parity model. Fair values are determined using the LIBOR for US dollar and euro, refinancing rate of the National Bank for Belarusian roubles and respective interbank market rates for other currencies and exchange rate fixed by the National Bank. Calculation is based on the assumption that these factors provide reliable basis for assessment of fair forward rate.

Provisions for financial guarantees and letters of credit
Provisions for financial guarantees and letters of credit are measured in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", that requires application of management estimation and judgment.

Functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

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

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

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

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange (LME) rates using the BYR/USD exchange rate effective at the date. Changes in the bid prices are recorded in other income/expense.

Due from banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Balances due from banks with fixed maturity are subsequently measured at amortized cost using the effective interest rate method. Amounts due from banks are carried net of allowance for impairment losses, if any.

Securities repurchase and reverse repurchase agreements

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

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

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

In the event the assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gain/(loss) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent financial assets and liabilities acquired principally for the purpose of selling/settling them in the near future, or that are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a pattern of short-term profit taking, as well as financial assets and liabilities that are initially recorded as financial assets and liabilities at fair value through profit or loss, or derivative financial instruments. Financial assets and liabilities at fair value through profit or loss are initially and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value of financial assets and liabilities at fair value through profit or loss. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the income statement for the period.

The Bank enters into derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments entered into by the Bank include foreign currency and securities forward and swap contracts. Derivative financial instruments that are entered into by the Bank are not qualified for hedge accounting according to the International Accounting Standard 39 “Financial Instruments: Recognition and Measurement”.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Derivatives fair values are determined using interest rate model. Most of the derivatives the Bank enters into are of a short-term nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the income statement for the period in which they arise in net gain/(loss) on foreign exchange operations or transactions with securities.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized in the income statement. Subsequently, loans are carried at amortized cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans

Loans are written off against allowance for impairment losses in case of uncollectibility, including through repossession of collateral. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral, and the respective decision of the Court has been rendered.

Allowances for impairment losses

The Bank accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses for financial assets are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. For financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, by the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

Allowances for impairment losses determined individually

The Bank determines impairment losses on individually significant loans and advances on individual basis. To determine the amount of allowance the following criteria are considered: stability of the borrower's business plan, its ability to maintain performance in case of financial difficulties, forecasted cash inflows, borrower's ability to obtain financial support, proceeds from the sale of collateral, and timing of expected cash flows and debt service. Allowances for impairment losses are evaluated at every reporting date or more frequently if required.

Allowances for impairment losses determined on the group basis

The Bank uses collective assessment to evaluate allowances for impairment losses on loans which are not individually significant (including plastic cards loans, mortgage and consumer loans), as well as allowances on individually significant loans for which there is no objective evidence of individual impairment. Allowances for impairment losses are evaluated at every reporting date, and each group of loans is evaluated separately.

Collective assessment determines impairment of a loan group, that might occur even when there is no objective evidence of impairment of individual loans. The impairment losses are evaluated based on the following information: loan group losses in the past years, current economic conditions, approximate period of time between the moment of a probable default and the moment when impairment losses are identified individually, as well as expected repayment and credit risk characteristics inherent in the group.

The change in allowances for impairment losses is recognized in the income statement. Assets are shown in the balance sheet net of impairment losses. Factors that the Bank considers in determining whether there is objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred for a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses that are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Derecognition of financial assets and liabilities

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

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

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

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

Finance leases

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

The lease is classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Bank as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Bank's net investment in the finance lease.

Operating leases

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

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

Investments available for sale

Investments available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such investments are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available for sale. If the market for investments is not active, the Bank establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other applicable methods. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Dividends received are included in other income in the income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the income statement as loss from non-current assets held for sale and included in operating expenses. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Property, equipment and intangible assets

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

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

	Year ended 31 December 2008	**Year ended 31 December 2007**
Buildings and construction	1%	1%
Computer equipment, furniture and other equipment	10-20%	10-20%
Vehicles	14%	14%
Intangible assets	20%	20%

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

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

The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

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

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

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

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

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

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

Due to banks and other financial institutions, customer accounts and subordinated debt

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

Debt securities issued

Debt securities issued represent promissory notes and bonds issued by the Bank. They are accounted for according to the same principles used for customer and bank deposits.

Provisions

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

Financial guarantee contracts and letters of credit issued

Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letters of credit issued.

Share capital

Contributions to share capital, made before 1 January 2006 are recognized at their initial cost restated for inflation. Contributions to share capital, made after 1 January 2006 are recognized at initial cost. Non-cash contributions are included into the share capital at fair value of the contributed assets. Treasury shares are recognized at cost. Treasury shares repurchased before 1 January 2006 are carried at cost restated for inflation. Non-redeemable preferred shares are classified as equity.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 “Events after the Balance Sheet Date” and disclosed accordingly.

Retirement obligations

In accordance with the requirements of the Belarusian legislation the Bank withholds amounts of pension contributions from employees’ salaries and pays them to the Social security fund. Such pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the State. The Bank does not have any pension arrangements separate from the State pension system of the Republic of Belarus. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income also includes income earned on investments in securities. Other income is credited to income statement when the related transactions are completed.

Fee income and expense

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

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into BYR at the appropriate rate of exchange prevailing at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

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

	31 December 2008	**31 December 2007**
BYR/USD	2,200.00	2,150.00
BYR/EUR	3,077.14	3,166.73
BYR/RUB	76.89	87.61

Offset of financial assets and liabilities

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

Adoption of new standards

On 13 October 2008 IASB issued amendments to IAS 39, “Financial Instruments: Recognition and Measurement”, and IFRS 7, “Financial Instruments: Disclosures”, titled “Reclassification of Financial Assets” which permit certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allows reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective from 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008. The Bank has elected not to apply the amendments to IAS 39 and IFRS 7 retrospectively.

At the date of authorization of these financial statements the following Interpretations were in issue but not yet effective.

In December 2006 the IASB issued IFRS 8 “Operating Segments”. It will replace IAS 14 “Segment Reporting” for accounting periods beginning on or after 1 January 2009. IFRS 8 requires segmental analysis reported by an entity to be based on information used by management.

On 6 September 2006, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented to in IFRS. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

In March 2007 the IASB issued a revised IAS 23 “Borrowing Costs”. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize borrowing costs as part of the cost of such asset. The Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009.

In 2008 IAS 27 “Consolidated and Separate Financial Statements” was amended as part of the second phase of the business combinations project. That phase of the project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The boards concluded the second phase of the project by the IASB issuing the amended IAS 27 and the FASB issuing FASB Statement 160 “Noncontrolling Interests in Consolidated Financial Statements”, along with, respectively, a revised IFRS 3 “Business Combinations” and FASB Statement 141 (revised 2007) “Business Combinations”. The amended Standard must be applied for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, an entity must not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 (as revised in 2008).

On 10 January 2008, the IASB issued an amendment to IAS 3 “Business Combinations” which clarifies and changes certain elements of accounting for a business combination, including measurement of contingent consideration, step acquisition and intangible assets and also widens the scope of this standard. The amendment to IFRS 3 is effective for periods beginning on or after 1 January 2009.

The Bank anticipates that adopted but not yet effective new Standards and Interpretations will have no material financial impact on the financial statements of the Bank.

4. PRIOR PERIOD RESTATEMENTS

In 2008 the Bank's management discovered the following errors in the financial statements for the year ended 31 December 2007:

- incomplete identification of related parties, being under common control with the Bank, as defined by IAS 24 "Related Party Disclosures" and thus incomplete disclosure of transactions with related parties (Note 28);

- error in classification upon initial recognition of debt securities issued by the Ministry of Finance of the Republic of Belarus and Belarusian banks into held for trading securities category while such classification does not meet the requirements of IAS 39 "Financial Instruments: Recognition and Measurement".

In accordance with International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the correction of these errors was done retrospectively.

The effect of the restatements made to the information contained in the financial statements for the year ended 31 December 2007 is as follows:

Type of restatement	Amount	Balance sheet, income statement and statement of cash flows item as per previous report	Balance sheet, income statement and statement of cash flows item as per current report
Classification at initial recognition of financial instruments	69,592	Trading securities and securities pledged under REPO agreements (before reclassification)	Investments available for sale
Classification at initial recognition of financial instruments	13,550	Cash flow/(outflow) from operating activities	Cash inflow/(outflow) from investing activities
Classification at initial recognition of financial instruments	51	Net income on operations with dealing securities	Net loss on operations with financial instruments available for sale

Reclassifications

Certain reclassifications have been made to the comparative information as per financial statements for the year ended 31 December 2007 to conform to the presentation as at 31 December 2008 as current period presentation provides better view of the financial position of the Bank.

Nature of reclassification	Amount	Balance sheet line item as per previous report	Balance sheet line item as per current report
Reclassification of cash and cash equivalents	66,676	Cash and cash equivalents	Due from banks
Reclassification of cash and cash equivalents	40,259	Cash and cash equivalents	Cash and balances with the National Bank of the Republic of Belarus
Reclassification of precious metals	553	Other assets	Precious metals
Reclassification of trading securities	66,558	Trading securities and securities pledged under REPO agreements	Financial assets at fair value through profit or loss
Reclassification of investments available for sale	26	Other assets	Investments available for sale
Reclassification of loans from non-banking institutions	39,345	Customer accounts	Due to banks and other financial institutions
Reclassification of current income tax liabilities	528	Income tax liabilities	Current income tax liabilities
Reclassification of deferred income tax liabilities	1,297	Income tax liabilities	Deferred income tax liabilities
Reclassification of other tax liabilities	819	Income tax liabilities	Other liabilities

5. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income		
Interest income on financial instruments at fair value:		
Interest on investment available for sale	11,632	6,726
Interest on financial assets at fair value through profit or loss	2,485	759
Interest income on financial instruments recorded at amortized cost:		
Interest on loans to customers	139,846	73,167
Interest on due from banks	5,015	3,584
Other interest income	97	41
Total interest income	159,075	84,277
Interest expense		
Interest expense on financial instruments recorded at amortized cost:		
Interest on deposits from banks and other financial institutions	40,772	16,390
Interest on customer accounts	39,152	29,843
Interest on debt securities issued	1,416	3
Total interest expense	81,340	46,236
Net interest income before provision for impairment losses on interest bearing assets	77,735	38,041

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Loans to customers
31 December 2006	8,478
Provision	6,250
Write-off of assets	(1,718)
31 December 2007	13,010
Provision	12,754
Write-off of assets	(651)
31 December 2008	25,113

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

	Other assets	**Guarantees and other commitments**	**Total**
31 December 2006	74	-	74
(Recovery of provision)/provision	(18)	604	586
31 December 2007	56	604	660
Provision/(recovery of provision)	57	(550)	(493)
31 December 2008	113	54	167

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

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2008	**Year ended 31 December 2007**
Dealing, net	15,704	13,278
Translation differences, net	9,824	336
Total net gain on foreign exchange operations	25,528	13,614

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income		
Settlement and cash operations with clients	21,662	14,627
Plastic cards operations	8,480	2,353
Foreign exchange operations	3,127	1,844
Settlements with banks	726	380
Documentary operations	584	880
Other	1,501	350
Total fee and commission income	36,080	20,434
Fee and commission expense		
"Delay" loan product processing	4,785	2,232
Plastic cards operations	4,759	2,182
Operations with securities	457	283
Documentary operations	371	483
Foreign exchange and cash operations	260	160
Other	862	296
Total fee and commission expense	11,494	5,636

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Staff costs	32,661	18,328
Social security contributions	8,705	5,462
Property and equipment maintenance	3,573	2,429
Depreciation and amortization	2,912	2,060
Taxes, other than income tax	2,866	2,289
Expenses on maintenance of banking software	1,918	456
Stationery and office expenses	1,615	1,564
Expenses for services of automated interbank settlement system	1,473	1,814
Contributions to deposits protection fund	1,263	708
Communications	1,044	832
Advertising costs	1,036	526
Information and consulting services	927	1,013
Security expenses	897	679
Charity and sponsorship expenses	869	233
Remuneration to the members of the Board	646	-
Vehicles maintenance and fuel expenses	646	726
Other expenses	2,965	1,947
Total operating expenses	66,016	41,066

10. INCOME TAX

The Bank provides for current income tax based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2008 and 2007, tax rate for the Bank was 24% for the republican tax and 3% for the municipal tax. The rates were charged successively and the combined rate was 26.28%.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income. Major sources of non-deductible expenses include expenses over prescribed norms. Major amounts of non-taxable income relate to operations with securities issued by the government.

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences at 31 December 2008 and 2007 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Tax effect of temporary differences at 31 December 2008 and 2007 comprise:

	31 December 2008	31 December 2007
Deductible temporary differences:		
Loans to customers	10,998	5,065
Property, equipment and intangible assets	4,800	-
Other liabilities	5,274	-
Derivative financial instruments	371	525
Other assets	1,767	1,488
Provision for guarantees and letters of credit	-	1,815
Total deductible temporary differences	23,210	8,893
Taxable temporary differences:		
Accrued interest income	19,264	8,422
Due to banks and other financial institutions	3,333	3,119
Provision for guarantees and letters of credit	382	-
Financial instruments available for sale	30	-
Property and equipment	-	1,849
Derivative financial instruments	-	183
Other assets	-	255
Total taxable temporary differences	23,009	13,828
Net deductible/(taxable) temporary differences	201	(4,935)
Deferred tax assets/(liabilities) at the combined statutory tax rate 26.28%	53	(1,297)
Less unrecognised assets	(53)	-
Net deferred tax assets/(liabilities)	-	(1,297)

Relationships between tax expenses and accounting profit for the years ended 31 December 2008 and 2007 are explained as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income tax	44,714	20,395
Combined statutory tax rate	26.28%	26.28%
Tax at the statutory tax rate	11,751	5,360
Tax effect of permanent differences	(888)	262
Change in unrecognized deferred tax assets	53	-
Income tax expense	10,916	5,622

	Year ended 31 December 2008	Year ended 31 December 2007
Current income tax expense	12,213	5,227
Deferred income tax (credit)/expense	(1,297)	395
Total income tax expense recognised in income statement	10,916	5,622

The movements in the amount of deferred tax liabilities were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Deferred tax liabilities at beginning of the period	1,297	902
Deferred income tax (credit)/expense	(1,297)	395
Deferred tax liabilities at end of the period	-	1,297

The movements in the amount of unrecognized deferred tax assets were as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Unrecognized deferred tax assets at beginning of the period	-	-
Increase in unrecognized deferred tax assets	53	-
Unrecognized deferred tax assets at end of the period	53	-

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

	31 December 2008	31 December 2007
Cash	37,428	22,770
Correspondent accounts with the National Bank	23,120	17,489
Balance on reserve deposit account with the National Bank	21,569	14,313
Total cash and balances with the National Bank	82,117	54,572

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

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

	31 December 2008	31 December 2007
Cash and balances with the National Bank	82,117	54,572
Due from banks in OECD countries with original maturity within 90 days	59,319	3,283
	141,436	57,855
Less minimum reserve deposits with the National Bank	(21,569)	(14,313)
Total cash and cash equivalents	119,867	43,542

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	Interest to nominal %	30 December 2008	31 December 2007
Bonds:			
German Federal Treasury bonds	3.75%	31,832	-
US Treasury bonds	1.25%	22,269	63,332
Bonds issued by non-resident banks	9.75%	1,958	755
Shares:			
Shares of Russian companies		2,124	2,471
Shares of Russian banks		482	-
Depositary receipts issued by a non-resident bank		336	-
Total financial assets at fair value through profit or loss		59,001	66,558

13. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2008 derivative financial instruments comprise:

Foreign currency and securities forward and swap contracts	Nominal amount (in units of purchased currency/ par value of securities to be purchased)	Net fair value	
		Asset	Liability
EUR/USD	EUR 25,950,000	-	(1,081)
GBP/USD	GBP 4,000,000	241	-
RUB/USD	RUB 59,440,000	143	-
USD/BYR	USD 10,000,000	210	-
USD/EUR	USD 11,282,800	216	-
USD/GBP	USD 5,804,600	-	(182)
USD/JPY	USD 1,283,150	-	(4)
Bank “Zenit” eurobonds (Russian Federation)	USD 3,000,000	-	(7)
CJSC “Alfa-bank” eurobonds (Ukraine)	USD 2,000,000	-	(244)
JSC “Gazprom” eurobonds (Russian Federation)	USD 3,000,000	532	-
JSC “MDM Bank” eurobonds (Russian Federation)	USD 2,000,000	-	(245)
Total derivative financial instruments		1,342	(1,763)

As at 31 December 2007 derivative financial instruments comprise:

Foreign currency and securities forward and swap contracts	Nominal amount (in units of purchased currency/ par value of securities to be purchased)	Net fair value	
		Asset	Liability
BYR/EUR	BYR 6,139,000	-	(144)
EUR/USD	EUR 5,050,004	94	-
GBP/EUR	GBP 146,073	-	(6)
RUB/USD	RUB 169,797,968	17	-
USD/BYR	USD 5,200,000	-	(42)
USD/EUR	USD 1,891,628	-	(49)
USD/JPY	USD 1,953,953	-	(139)
USD/RUB	USD 15,000,000	70	(5)
Forwards on eurobonds issued by a Russian bank	USD 3,000,000	-	(87)
Total derivative financial instruments		181	(472)

14. DUE FROM BANKS

Due from banks comprise:

	31 December 2008	31 December 2007
Correspondent and demand accounts with other banks	89,102	28,026
Time deposits with other banks	12,445	41,567
Loans under reverse repurchase agreements	503	-
Total due from banks	102,050	69,593

As at 31 December 2008 the Bank had amounts due from one bank totaling BYR 33,064 million, which exceeded 10% of the Bank's equity.

As at 31 December 2008 reverse repo agreements were concluded with a Belarusian bank with maturity within one month after the reporting date. These agreements were collateralized by long-term government bonds with fair value of BYR 503 million.

As at 31 December 2008 and 2007 included in due from banks were amounts of BYR 12,254 million and BYR 6,901 million, respectively, placed as guarantee deposits on letters of credit, guarantees and plastic cards operations with the international payment systems.

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2008	31 December 2007
Originated loans	982,104	624,197
Net investments in finance lease	53,384	36,350
	1,035,488	660,547
Less allowance for impairment losses	(25,113)	(13,010)
Total loans to customers	1,010,375	647,537

Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

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

	31 December 2008	31 December 2007
Loans collateralized by equipment and rights thereon	228,558	188,096
Loans collateralized by real estate and rights thereon	210,350	104,225
Loans collateralized by guarantees of individuals	189,275	96,518
Loans collateralized by inventories	97,386	86,682
Loans collateralized by guarantees of enterprises	68,300	64,007
Loans collateralized by liens over receivables	2,389	5,878
Loans collateralized by cash or guarantee deposits	2,219	5,050
Loans collateralized by other types of collateral	237,011	110,091
	1,035,488	660,547
Less allowance for impairment losses	(25,113)	(13,010)
Total loans to customers	1,010,375	647,537

	31 December 2008	31 December 2007
Analysis by sector:		
Individuals	415,886	194,057
Trade	266,575	200,610
Production	174,876	145,627
Construction	67,855	29,160
Transport and communication	42,342	1,910
Real estate	41,384	611
Lease companies	15,400	225
Telecom and information services	4,669	2,970
Agriculture	1,384	418
Utilities	846	42
Other	4,271	84,917
	1,035,488	660,547
Less allowance for impairment losses	(25,113)	(13,010)
Total loans to customers	1,010,375	647,537

As at 31 December 2008 the Bank provided a loan to one customer totaling BYR 28,731 million before allowance for impairment losses which exceeded 10% of the Bank’s equity.

As at 31 December 2007 the Bank provided loans to twelve customers totaling BYR 156,313 million before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank’s equity.

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

Loans to individuals comprise the following products:

	31 December 2008	31 December 2007
Consumer loans	106,367	31,059
Car loans	98,327	97,960
Plastic cards	81,068	20,878
Consumer loans "Delay"	72,570	44,561
Mortgage loans	57,483	21,268
Other	71	107
	415,886	215,833
Less allowance for impairment losses	(5,634)	(517)
Total loans to individuals	410,252	215,316

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

The components of net investment in finance lease as at 31 December 2008 and 2007 are as follows:

	31 December 2008	31 December 2007
Less than one year	27,190	19,524
From one year to five years	41,865	27,319
More than five years	10	8
Minimum lease payments	69,065	46,851
Less: unearned finance income	(15,681)	(10,501)
Net investment in finance lease	53,384	36,350
Current portion	20,034	15,148
Long-term portion	33,350	21,202
Net investment in finance lease	53,384	36,350

16. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Interest to nominal %	31 December 2008	Interest to nominal %	31 December 2007
Long-term government bonds	9%-10%	143,974	6.5%-10%	48,623
Bonds issued by Belarusian companies	12.5%	10,187		-
Bonds issued by Belarusian banks	14%	9,992	12%-13%	8,235
Units in investment funds		123		486
Other unquoted equity instruments		83		95
Short-term government bonds		-	10%-11%	12,734
Total investments available for sale		164,359		70,173

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

Short-term government bonds ("GKO") - BYR denominated government securities with short-term maturities that are issued at discount to face value by the Ministry of Finance of the Republic of Belarus.

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

As at 31 December 2008 GDO at fair value of BYR 96,557 million were pledged as collateral under repurchase agreements with Belarusian banks with maturity up to 1 month from the reporting date (Note 21).

As at 31 December 2007 GKO at fair value of BYR 10,256 million were pledged as collateral under repurchase agreements with Belarusian banks with maturity up to 1 month from the reporting date (Note 21).

17. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2008 the Bank had 81 flats in the block of flats in Vitebsk. The flats were received in December 2008 through repossession of collateral pledged under the default loan. The Bank searches for the buyers, including wholesale ones, and helds negotiations with potential buyers. The management of the Bank expects the sale of all non-current assets held for sale to occur in 2009. As at the date of these financial statements authorization the Bank sold 51 flats with the total carrying value of BYR 7,377 million.

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings	Computer equipment, furniture and other equipment	Vehicles	Construction in progress	Intangible assets	Total
At initial cost						
31 December 2006	15,879	10,102	2,111	1,270	1,226	30,588
Additions	2,077	2,109	1,010	1,416	528	7,140
Transfers	1,580	433	-	(2,013)	-	-
Disposals	(7)	(521)	(501)	(14)	(12)	(1,055)
31 December 2007	19,529	12,123	2,620	659	1,742	36,673
Additions	3,517	3,926	670	1,567	3,720	13,400
Transfers	-	-	-	-	-	-
Disposals	(27)	(587)	(351)	(8)	(297)	(1,270)
31 December 2008	23,019	15,462	2,939	2,218	5,165	48,803
Accumulated depreciation						
31 December 2006	1,532	5,424	940	-	239	8,135
Charge for the year	305	929	351	-	483	2,068
Eliminated on disposals	(5)	(465)	(373)	-	(12)	(855)
31 December 2007	1,832	5,888	918	-	710	9,348
Charge for the year	426	1,292	411	-	783	2,912
Eliminated on disposals	(10)	(460)	(243)	-	(295)	(1,008)
31 December 2008	2,248	6,720	1,086	-	1,198	11,252
Net book value						
31 December 2008	20,771	8,742	1,853	2,218	3,967	37,551
31 December 2007	17,697	6,235	1,702	659	1,032	27,325

Depreciation charge for the year ended 31 December 2007 included BYR 8 million of depreciation charge for the social facilities object. These expenses were included into operating expense under the item “Staff costs”.

19. OTHER ASSETS

Other assets comprise:

	31 December 2008	31 December 2007
Other financial assets:		
Other debtors	1,303	330
Less allowance for impairment losses	(113)	(56)
Total other financial assets	1,190	274
Other non-financial assets:		
Tax recoverable other than income tax	3,886	2,773
Prepayments for fixed assets and other assets	1,244	515
Inventory in stock	528	318
Other non-financial assets	560	-
Assets to be leased out, including prepayments	-	2,191
Total other assets, net	7,408	6,071

Movements in allowances for impairment losses on other assets for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

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

Loans from National Bank comprise:

	31 December 2008	31 December 2007
Loan from National Bank	80,000	-
Loan from National Bank financed by the international financial institutions for lending to small and medium size enterprizes	14,662	20,232
Total loans from National Bank	94,662	20,232

As at 31 December 2008 and 2007 the amounts due to the National Bank comprised long-term loan with maturity date of 20 April 2011 granted in US dollars and financed by the European Bank for Reconstruction and Development (“EBRD”) for further financing of small and medium size enterprizes in the Republic of Belarus. Interest rate on the loan is floating and is linked to LIBOR.

As at 31 December 2008 the Bank received a short-term loan with maturity date of 16 February 2009. Interest rate on the loan is floating and is linked to the overnight loan rate set by the National Bank.

21. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2008	31 December 2007
Loans from banks and non-banking financial institutions	376,056	330,982
Loans under repurchase agreements	96,557	10,256
Loans from EBRD	22,662	32,141
Correspondent and demand accounts of other banks	13,948	28,111
Loan from International Financial Corporation ("IFC")	7,164	9,897
Total due to banks, international financial and non-financial institutions	516,387	411,387

As at 31 December 2008 loans from banks and non-banking financial institutions included two syndicated loans totaling BYR 115,786 million attracted from one CIS bank, two OECD banks and from one non-banking financial institution, registered in non-OECD country.

As at 31 December 2007 loans from banks and non-banking financial institutions included three syndicated loans totaling BYR 180,143 million attracted from two CIS banks, two OECD banks and from one non-banking financial institution, registered in OECD and two non-banking financial institutions, registered in non-OECD countries.

As at 31 December 2008 due to banks and other financial institutions included loans from five banks totaling BYR 396,341 million, which represented significant concentration (77%).

As at 31 December 2007 due to banks and other financial institutions included loans from four financial institutions totaling BYR 152,583 million, which represented significant concentration (37%).

22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2008	31 December 2007
Time deposits	348,068	256,845
Current/settlement accounts and deposits repayable on demand	167,166	145,781
Total customer accounts	515,234	402,626

As at 31 December 2008 customer accounts amounting to BYR 97,034 million (19%) were due to three customers which represented significant concentration.

As at 31 December 2008 and 2007 customer accounts of BYR 10,318 million and BYR 22,618 million, respectively, were held as security against letters of credit, guarantees and loans issued by the Bank.

Analysis by sector:	31 December 2008	31 December 2007
Individuals	191,500	143,202
Manufacturing	89,851	56,144
Trade	77,005	69,807
General commercial activities	63,140	88,555
Transport and communication	38,353	8,640
Construction	19,539	16,035
Insurance and financial services	13,391	12,379
Other	22,455	7,864
Total customer accounts	515,234	402,626

23. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2008	31 December 2007
Bonds	49,660	-
Promissory notes	1	1
Total debt securities issued	49,661	1

As at 31 December 2008 bonds issued by the Bank are represented by the following issues:

	Currency	Nominal rate, %	Maturity date	31 December 2008
Bonds held by legal entities	USD	8%	17 August 2011	33,223
Bonds held by legal entities	BYR	13.5%	17 August 2011	16,368
Bonds held by individuals	USD	9%	1 April 2011	47
Bonds held by individuals	EUR	9%	1 April 2011	22
Total bonds issued by the Bank				49,660

24. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008	31 December 2007
Other financial liabilities:		
Compensation payable to employees	5,274	1,294
Other creditors and accrued expenses	476	343
Settlements for property and equipment and other assets acquired	61	1,209
Total other financial liabilities	5,811	2,846
Other non-financial liabilities:		
Prepayments received	1,042	96
Tax payable, other than income tax	487	819
Provision for guarantees and other commitments	54	604
Total other liabilities	7,394	4,365

Movements in provisions for losses on guarantees and other commitments for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

25. SUBORDINATED DEBT

As at 31 December 2008 and 2007 the Bank received the subordinated debt from JSC “Gazprombank” in the amount of BYR 11,000 million and BYR 10,750 million, respectively, with a maturity date of 25 March 2012. Interest rate on the debt is floating and is linked to LIBOR (LIBOR+6%). Repayment of this debt is subordinate to the repayments of the Bank’s liabilities to all other creditors.

26. SHARE CAPITAL

As at 31 December 2008 authorized, issued and fully paid capital of the Bank consisted of 218,333,799,649 ordinary shares and 260,044,863 preference shares all with par value of BYR 1 each (at historical cost).

As at 31 December 2007 authorized, issued and fully paid capital of the Bank consisted of 57,458,799,649 ordinary shares and 260,044,863 preference shares all with par value of BYR 1 each (at historical cost).

All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting. Preference shares are entitled to annual dividend, the amount of which is determinable by annual shareholders meetings.

For the year ended 31 December 2008 the Bank issued 160,875 million ordinary shares in the amount of BYR 160,875 million.

For the years ended 31 December 2008 and 2007 the Bank declared and paid BYR 3,861 million and BYR 2,815 million dividends on ordinary and preference shares for the years 2007 and 2006, respectively.

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

Provision on letters of credit and guarantees amounted to BYR 54 million and BYR 604 million as at 31 December 2008 and 2007, respectively.

As at 31 December 2008 and 2007 the nominal or contract amounts of contingent liabilities were:

	31 December 2008 Nominal value	31 December 2007 Nominal value
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	9,526	15,788
Letters of credit	5,601	16,719
Commitments on loans and unused credit lines	70,076	73,074
Total contingent liabilities and credit commitments	85,203	105,581

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

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2008 and 2007 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees

Capital commitments – The Bank did not have material capital commitments outstanding as at 31 December 2008 and 2007.

Operating lease commitments – As at 31 December 2008 and 2007 the Bank did not have any non-cancelable operating lease agreements.

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

28. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;

(b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Joint ventures in which the Bank is a venturer;

(d) Members of key management personnel of the Bank or its parent;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

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

	31 December 2008		31 December 2007	
	Related party balances	**Total category as per financial statements caption**	**Related party balances (restated)**	**Total category as per financial statements caption**
Financial assets at fair value through profit or loss	**1,425**	**59,001**	**2,318**	**66,558**
-entities under common control	1,425		2,318	
Derivative financial instruments	**532**	**1,342**	**-**	**181**
-shareholders	532		-	
Due from banks	**4,171**	**102,050**	**2,673**	**69,593**
-shareholders	3,299		2,180	
-entities under common control	872		493	
Loans to customers before allowance for impairment losses	**3,116**	**1,035,488**	**1,350**	**660,547**
- key management personnel	3,116		1,350	
Allowance for impairment losses	**17**	**25,113**	**-**	**13,010**
- key management personnel	17		-	
Due to banks and other financial institutions	**217,674**	**516,387**	**105,113**	**411,387**
- shareholders	116,566		47,688	
- entities under common control	101,108		57,425	
Customer accounts	**43,090**	**515,234**	**27,962**	**402,626**
- shareholders	-		25,164	
- entities under common control	41.132		1,722	
- key management personnel	1,958		1,076	
Subordinated debt	**11,000**	**11,000**	**10,750**	**10,750**
- shareholders	11,000		10,750	
Financial commitments and contingencies	**271**	**85,203**	**13,027**	**105,581**
- shareholders	30		13,027	
- key management personnel	241		-	

Included in the income statement for the years ended 31 December 2008 and 2007 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions (restated)**	**Total category as per financial statements caption**
Interest income	**360**	**159,075**	**319**	**84,277**
- shareholders	17		7	
- entities under common control	104		234	
- key management personnel	239		78	
Fee and commission income	**1,064**	**36,080**	**-**	**20,434**
- shareholders	992		-	
- entities under common control	67		-	
- key management personnel	5		-	
Net (loss)/gain on financial assets at fair value through profit or loss	**(4,172)**	**(6,798)**	**409**	**1,033**
- shareholders	(851)		301	
- entities under common control	(3,321)		108	
Interest expenses	**(14,446)**	**(81,340)**	**(7,597)**	**(46,236)**
- shareholders	(6,637)		(6,192)	
- entities under common control	(7,611)		(1,302)	
- key management personnel	(198)		(103)	
Operating expenses	**(5,433)**	**(66,016)**	**(3,609)**	**(41,066)**
- key management personnel	(5,433)		(3,609)	
Provision for impairment losses on interest bearing assets	**(17)**	**(12,754)**	**-**	**(6,250)**
- key management personnel	(17)		-	

During the years ended 31 December 2008 and 2007 remuneration of key management personnel consisted of short-term employee benefits.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular financial instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

	31 December 2008		31 December 2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the National Bank of the Republic of Belarus	82,117	82,117	54,572	54,572
Financial assets at fair value through profit or loss	59,001	59,001	66,558	66,558
Derivative financial instruments (assets)	1,342	1,342	181	181
Due from banks	102,050	102,050	69,593	69,593
Investments available for sale, less equity investments	164,276	164,276	70,078	70,078
Derivative financial instruments (liabilities)	1,763	1,763	472	472
Loans from the National Bank of the Republic of Belarus	94,662	94,662	20,232	20,232
Due to banks and other financial institutions	516,387	516,387	411,387	411,387
Subordinated debt	11,000	11,000	10,750	10,750

The fair value of loans to customers and some equity investments available for sale, as well as customer accounts can not be measured reliably as they are not traded on an active market and it’s impracticable to apply any other valuation techniques on such instruments.

30. REGULATORY MATTERS

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

The ratios were calculated according to the principles employed by the Basle Committee by applying the appropriate risk estimates to the assets net of allowances for impairment losses and contingent liabilities.

As at 31 December 2008 the Bank’s total capital amount for capital adequacy purposes was BYR 288,388 million and tier 1 capital amount was BYR 281,661 million with ratios of 22.56% and 22.03%, respectively.

As at 31 December 2007 the Bank’s total capital amount for Capital Adequacy purposes was BYR 101,655 million and tier 1 capital amount was BYR 90,905 million with ratios of 14.1% and 12.6%, respectively.

31. CAPITAL MANAGEMENT

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

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank’s own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The mangament estimates capital volume required for achievement of strategic objectives and for planned increase of assets due to set goals, as well as optimal balance between profitability and capital adequacy, based on requiremnts of shareholders, partners of the Bank, regulatory institutions. The Bank performs anlysis of risk factors, that influence the Bank’s capital, and optimizes these factors by a balanced funding policy.

32. RISK MANAGEMENT POLICIES

Bank's operations are subject to risks. The Bank manages the risks in the course of the constant process of identification, evaluation and observation, as well as establishing risk limits and other internal control measures. The Bank is subject to credit risk, liquidity risk and market risk, which further comprises risk associated with trade operations and risk associated with non-trade activities. The Bank is also subject to operational risks.

The structure of risk management

The Board of Directors carries general responsibility over risks identification and control. The Board of Directors is responsible for the general approach to risk management. The Management Board is responsible for the approval of the general risk management strategy and principles, certain policies on risk management, as well as for the effectiveness and quality of the control over risks. The Board also sets limits on certain banking operations. The Assets and Liabilities Management Committee, Credit Committees, Finance and Planning Committee and Technical Committee set certain limits and restrictions, exercise control over certain risk levels and carry out activities aimed at minimizing risks impact on the Bank's activities. Within authority delegated by the Management Board, Credit Committees and Assets and Liabilities Management Committee decide whether operations subject to risk could be carried out.

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

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

Systems of risk evaluation and transfer of information on risks

Bank's risks are evaluated using the method estimating an expected loss which is likely to occur in the normal course of business. The Bank also simulates the "worst case scenarios" which will take place in case unlikely events occur.

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

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

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

The relevant management body of the Bank distributes limits by branches for the most significant risks subject to centralized risk management to a smaller extent. The branches must adhere to the limits set and general principles of risk management. Control over the adherence to the limits set is carried out by the internal audit department in the course of audits, as well as by the Department on prudential reporting and risk management during financial statements preparationin accordance with legislation of Belarusian accounting rules. External control is carried out by the Revision Commission of the Bank.

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

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

Excessive risk concentration

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

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

Credit risk

Credit risk is the risk that the Bank will incur losses if the clients and counterparties do not meet their contaractual obligations. The Bank manages credit risk by setting maximum risk it is ready to accept for certain counterparties, geographical and industry risk concentration, as well as by monitoring adherence to the credit limits set.

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

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

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

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

During the year 2008 the main policies on loans granting were updated. The Bank commenced development of the system of credit risk evaluation on the basis of internal credit ratings. The Bank participates in the "Credit bureau" project arranged by the National Bank of the Republic of Belarus. The Bank takes part in developing the data base of credit histories of all Bank's clients regardless of the amount due.

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

Maximum exposure

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

Maximum exposure to credit risk may substantially fluctutate depending on individual risks inherent in certain assets and general market risks.

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

	31 December 2008	**31 December 2007**
	Maximum exposure	**Maximum exposure**
Current accounts in the National Bank of Republic of Belarus	23,120	17,489
Financial assets at fair value through profit or loss	59,001	66,558
Derivative financial instruments	1,342	181
Due from banks	102,050	69,593
Loans to customers	1,010,375	647,537
Investments available for sale	164,153	69,592
Other financial assets	1,190	274
Guarantees issued and similar commitments	9,526	15,788
Commitments on loans and unused credit lines	70,076	73,074

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

The following table presents Bank's financial assets by credit ratings issued by Fitch Ratings and Standard&Poors rating agencies:

	AA	**A**	**BBB**	**BB**	**Lower than BB-**	**Not rated**	**31 December 2008 Total**
Due from the National Bankof the Republic of Belarus	-	-	-	23,120	-	-	23,120
Financial assets at fair value through profit or loss	54,102	-	1,072	-	1,958	1,869	59,001
Derivative financial instruments	-	-	-	532	411	399	1,342
Due from banks	986	52,743	140	11,604	12,651	23,926	102,050
Loans to customers	-	-	-	-	-	1,010,375	1,010,375
Investments available for sale	-	-	-	143,974	-	20,385	164,359
Other financial assets	-	-	-	-	-	1,190	1,190

	AA	**A**	**BBB**	**BB**	**Lower than BB-**	**Not rated**	**31 December 2007 Total**
Due from the National Bank of the Republic of Belarus	-	-	-	17,489	-	-	17,489
Financial assets at fair value through profit or loss	63,332	-	1,663	-	-	1,563	66,558
Derivative financial instruments	-	-	-	42	51	88	181
Due from banks	667	8,911	67	790	20,059	39,099	69,593
Loans to customers	-	-	-	-	-	647,537	647,537
Investments available for sale	-	-	-	61,357	-	8,816	70,173
Other financial assets	-	-	-	-	-	274	274

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

The following table represents the carrying value of assets that are individually impaired and past due:

	Financial assets not individually impaired		**Financial assets individually impaired**		**31 December 2008**
	not past due	**past due**	**not past due**	**past due**	**Total**
Due from the National Bank of the Republic of Belarus	23,120	-	-	-	23,120
Financial assets at fair value through profit or loss	59,001	-	-	-	59,001
Derivative financial instruments	1,342	-	-	-	1,342
Due from banks	102,050	-	-	-	102,050
Loans to customers	671,382	712	336,549	1,732	1,010,375
Investments available for sale	164,359	-	-	-	164,359
Other financial assets	1,130	-	-	60	1,190

	Financial assets not individually impaired		Financial assets individually impaired		31 December 2007
	not past due	past due	not past due	past due	
Due from the National Bank of the Republic of Belarus	17,489	-	-	-	17,489
Financial assets at fair value through profit or loss	66,558	-	-	-	66,558
Derivative financial instruments	181	-	-	-	181
Due from banks	69,593	-	-	-	69,593
Loans to customers	363,167	4,478	279,892	-	647,537
Investments available for sale	70,173	-	-	-	70,173
Other financial assets	249	-	-	25	274

Geographical concentration

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

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

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2008 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	60,548	-	-	-	60,548
Financial assets at fair value through profit or loss	-	4,900	54,101	-	59,001
Derivative financial assets	210	721	-	411	1,342
Due from banks	26,331	15,321	60,004	394	102,050
Loans to customers	1,010,352	23	-	-	1,010,375
Investments available for sale	164,182	124	53	-	164,359
Other financial assets	1,190	-	-	-	1,190
TOTAL FINANCIAL ASSETS	1,262,813	21,089	114,158	805	1,398,865
FINANCIAL LIABILITIES:					
Derivative financial liabilities	-	1,396	-	367	1,763
Loans from the National Bank of the Republic of Belarus	94,662	-	-	-	94,662
Due to banks and other financial institutions	111,858	114,710	227,965	61,854	516,387
Subordinated debt	-	11,000	-	-	11,000
Customer accounts	500,949	4,516	625	9,144	515,234
Debt securities issued	49,661	-	-	-	49,661
Other financial liabilities	5,714	-	97	-	5,811
TOTAL FINANCIAL LIABILITIES	762,844	131,622	228,687	71,365	1,194,518
NET POSITION	499,969	(110,533)	(114,529)	(70,560)	

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2007 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	40,259	-	-	-	40,259
Financial assets at fair value through profit or loss	-	3,226	63,332	-	66,558
Derivative financial assets	17	-	-	164	181
Due from banks	29,837	29,632	9,527	597	69,593
Loans to customers	647,523	14	-	-	647,537
Investments available for sale	69,652	486	35	-	70,173
Other financial assets	274	-	-	-	274
TOTAL FINANCIAL ASSETS	787,562	33,358	72,894	761	894,575
FINANCIAL LIABILITIES:					
Derivative financial liabilities	157	87	-	228	472
Loans from the National Bank of the Republic of Belarus	20,232	-	-	-	20,232
Due to banks and other financial institutions	35,496	94,305	217,007	64,579	411,387
Subordinated debt	-	10,750	-	-	10,750
Customer accounts	392,193	4,431	249	5,753	402,626
Debt securities issued	1	-	-	-	1
Other financial liabilities	2,815	-	31	-	2,846
TOTAL FINANCIAL LIABILITIES	450,894	109,573	217,287	70,560	848,314
NET POSITION	336,668	(76,215)	(144,393)	(69,799)	

Liquidity risk

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

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

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

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

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

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2008 Total
FINANCIAL LIABILITIES						
Loans from the National Bank of the Republic of Belarus	1,512	80,807	11,117	4,463	-	97,899
Due to banks and other financial institutions	173,511	28,578	224,928	89,124	22,741	538,882
Subordinated loan	-	-	889	12,982	-	13,871
Customer accounts	160,242	31,401	104,005	150,063	55,046	500,757
Debt securities issued	-	780	3,574	57,583	-	61,937
Total interest bearing financial liabilities	335,265	141,566	344,513	314,215	77,787	1,213,346
Due to banks and other financial institutions	13,948	-	-	-	-	13,948
Customer accounts	93,599	53	1,833	972	-	96,457
Other financial liabilities	2,146	3,665	-	-	-	5,811
Guarantees issued and similar commitments	6,008	-	-	-	-	6,008
Commitments on loans and unused credit lines	70,076	-	-	-	-	70,076
TOTAL FINANCIAL LIABILITIES	521,042	145,284	346,346	315,187	77,787	1,405,646

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2007 Total
FINANCIAL LIABILITIES						
Loans from the National Bank of the Republic of Belarus	-	-	9,720	15,151	-	24,871
Due to banks and other financial institutions	70,213	15,775	267,810	68,338	-	422,136
Subordinated debt	-	-	-	14,394	-	14,394
Customer accounts	94,997	21,885	58,532	186,001	33,887	395,302
Debt securities issued	1	-	-	-	-	1
Total interest bearing liabilities	165,211	37,660	336,062	283,884	33,887	856,704
Due to banks and other financial institutions	17,065	-	-	-	-	17,065
Customer accounts	70,656	28	3,116	816	-	74,616
Other financial liabilities	1,701	67	282	796	-	2,846
Guarantees issued and similar commitments	15,788	-	-	-	-	15,788
Commitments on loans and unused credit lines	73,074	-	-	-	-	73,074
TOTAL FINANCIAL LIABILITIES	343,495	37,755	339,460	285,496	33,887	1,040,093

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

Investments available for sale – Liquidity management comprises evaluation of investments available for sale realization terms based on the analysis of actual period during which the securities were held by the Bank, existence of active market and possibility of sale of these investments. As at 31 December 2008 and 2007 maturity of securities available for sale issued by the Ministry of Finance of the Republic of Belarus in the amount of BYR 143,974 million and BYR 61,357 million, respectively, was estimated by management as up to 1 month. As at 31 December 2008 and 2007 contractual maturity was from 10 June 2009 to 26 April 2010 and from 4 February 2008 to 26 April 2010, respectively.

Customer accounts – The Bank's liquidity risk management includes estimation of core deposits, i.e. funds associated with stable customer deposits relationship, this amount is estimated using statistical methods based on historical data of fluctuations on customer accounts balances during 90 days before the reporting date. As at 31 December 2008 and 2007 core deposits amounted to BYR 105,113 million and BYR 82,673 million, respectively. Based on going concern assumption the effective maturity of core deposits is considered to be undefined while contractual maturity is on demand.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS:								
Financial assets at fair value through profit or loss	56,059	-	-	-	-	-	-	56,059
Due from banks	23,206	66	352	804	-	-	-	24,428
Loans to customers	57,655	88,184	344,672	478,871	40,000	993	-	1,010,375
Investments available for sale	143,974	5,599	10,186	4,394	-	-	-	164,153
Total interest bearing assets	280,894	93,849	355,210	484,069	40,000	993	-	1,255,015
Cash and balances with the National Bank of the Republic of Belarus	60,548	-	-	-	-	-	-	60,548
Financial assets at fair value through profit or loss	2,942	-	-	-	-	-	-	2,942
Derivative financial instruments	631	179	-	-	-	-	532	1,342
Due from banks	77,622	-	-	-	-	-	-	77,622
Investments available for sale	-	-	-	-	-	-	206	206
Other financial assets	590	174	43	323	-	60	-	1,190
TOTAL FINANCIAL ASSETS	423,227	94,202	355,253	484,392	40,000	1,053	738	1,398,865
FINANCIAL LIABILITIES								
Loans from the National Bank of the Republic of Belarus	-	80,000	10,566	4,096	-	-	-	94,662
Due to banks and other financial institutions	172,971	24,663	206,713	76,493	21,599	-	-	502,439
Subordinated debt	-	-	-	11,000	-	-	-	11,000
Customer accounts	72,673	26,480	86,932	104,865	42,392	-	85,435	418,777
Debt securities issued	1	-	-	49,660	-	-	-	49,661
Total interest bearing liabilities	245,645	131,143	304,211	246,114	63,991	-	85,435	1,076,539
Derivative financial instruments	1,267	-	-	-	-	-	496	1,763
Due to banks and other financial institutions	13,948	-	-	-	-	-	-	13,948
Customer accounts	73,921	53	1,833	972	-	-	19,678	96,457
Other financial liabilities	2,146	3,665	-	-	-	-	-	5,811
TOTAL FINANCIAL LIABILITIES	336,927	134,861	306,044	247,086	63,991	-	105,609	1,194,518
Liquidity gap	86,300	(40,659)	49,209	237,306	(23,991)			
Interest sensitivity gap	35,249	(37,294)	50,999	237,955	(23,991)			
Cumulative interest sensitivity gap	35,249	(2,045)	48,954	286,909	262,918			
Cumulative interest sensitivity gap as a percentage of total assets	3%	0%	3%	21%	19%			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdu e	Maturity undefined	31 December 2007 Total
FINANCIAL ASSETS:								
Financial assets at fair value through profit or loss	63,332	-	-	-	-	-	-	63,332
Due from banks	33,061	67	333	1,206	-	-	-	34,667
Loans to customers	28,343	66,881	268,771	264,884	14,180	4,478	-	647,537
Investments available for sale	69,509	-	-	-	-	-	-	69,509
Total interest bearing assets	194,245	66,948	269,104	266,090	14,180	4,478	-	815,045
Cash and balances with the National Bank of the Republic of Belarus	40,259	-	-	-	-	-	-	40,259
Financial assets at fair value through profit or loss	3,226	-	-	-	-	-	-	3,226
Derivative financial instruments	181	-	-	-	-	-	-	181
Due from banks	33,616	-	105	1,205	-	-	-	34,926
Investments available for sale	-	-	-	-	-	-	664	664
Other financial assets	249	-	-	-	-	25	-	274
TOTAL FINANCIAL ASSETS	271,776	66,948	269,209	267,295	14,180	4,503	664	894,575
FINANCIAL LIABILITIES								
Loans from the National Bank of the Republic of Belarus	-	-	7,872	12,360	-	-	-	20,232
Due to banks and other financial institutions	71,924	14,020	255,084	53,294	-	-	-	394,322
Subordinated debt	-	-	-	-	10,750	-	-	10,750
Customer accounts	28,402	20,476	51,703	140,609	19,468	-	67,352	328,010
Debt securities issued	1	-	-	-	-	-	-	1
Total interest bearing financial liabilities	100,327	34,496	314,659	206,263	30,218	-	67,352	753,315
Derivative financial instruments	472	-	-	-	-	-	-	472
Due to banks and other financial institutions	17,065	-	-	-	-	-	-	17,065
Customer accounts	55,335	28	3,116	816	-	-	15,321	74,616
Other financial liabilities	1,701	67	282	796	-	-	-	2,846
TOTAL FINANCIAL LIABILITIES	174,900	34,591	318,057	207,875	30,218	-	82,673	848,314
Liquidity gap	96,876	32,357	(48,848)	59,420	(16,038)			
Interest sensitivity gap	93,918	32,452	(45,555)	59,827	(16,038)			
Cumulative interest sensitivity gap	93,918	126,370	80,815	140,642	124,604			
Cumulative interest sensitivity gap as a percentage of total assets	10%	14%	9%	16%	14%			

Market Risk

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

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

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

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

Interest rate risk

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

The interest rate risk management is performed by a collective body – Assets and Liabilities Management Committee. The Committee sets absolute limits for Bank's operating departments, management can operate within, and ensures the positive interest rate margin. The Bank conducts monitoring of its current financial performance on continuing basis, estimates interest rate sensitivity and and its effect on profit and capital.

The effect of interest rate changes on net interest income is evaluated based on balance amounts of interest bearing financial assets and liabilities with fixed and floating interest rate as at reporting date. The estimation follows from the assumption that the Bank's portfolio structure does not change and is based on "the reasonably possible changes in risk variables". The level of these changes is determined by the risk-management and is reported to the key management personnel. The following table presents a sensitivity analysis, which was determined based on changes in financial instruments with floating interest rate, as well as in fiancial assets at fair value with fixed rate. The level of these changes is determined by management. The sensetivity analysis represents effect of 5% increase/reduction in interest rates existing as at reporting date on the net profit of the Bank assuming that the change took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant. In the year 2008 the management decided to provide the sensitivity analysis disclosure by financial statement lines for more detailed analysis.

	At 31 December 2008		**At 31 December 2007**	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +0.5%**	**Interest rate -0.5%**
Impact on profit before tax:				
Assets				
Financial assets at fair value through profit or loss	(2,803)	2,803		
Due from banks	923	(923)		
Loans to customers	47,008	(47,008)		
Investments available for sale	729	(729)		
Liabilities				
Loans from the National Bank of the Republic of Belarus	(4,733)	4,733		
Due to banks and other financial institutions	(13,134)	13,134		
Customer accounts	(15,969)	15,969		
Debt securities issued	(818)	818		
Net impact on profit before tax	11,203	(11,203)	834	(834)
Impact on equity (excluding profit for the year):				
Investments available for sale	(7,922)	8,783	-	-
Net impact on equity	3,281	(2,420)	834	(834)

Currency risk

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

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

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

	BYR	USD 1USD=BYR 2,200	EUR 1EUR=BYR 3,077.14	RUB 1RUB=BYR 76.89	Other currencies	31 December 2008 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	44,698	8,227	4,218	3,366	39	60,548
Financial assets at fair value through profit or loss	-	24,227	31,832	2,942	-	59,001
Derivative financial assets	810	532	-	-	-	1,342
Due from banks	23,631	53,894	20,603	3,708	214	102,050
Loans to customers	395,141	542,864	63,243	6,196	2,931	1,010,375
Investments available for sale	164,236	-	-	123	-	164,359
Other financial assets	838	211	-	141	-	1,190
TOTAL FINANCIAL ASSETS	629,354	629,955	119,896	16,476	3,184	1,398,865
FINANCIAL LIABILITIES:						
Derivative financial liabilities	1,274	489	-	-	-	1,763
Loans from the National Bank of the Republic of Belarus	80,000	14,662	-	-	-	94,662
Due to banks and other financial institutions	99,062	347,617	69,695	13	-	516,387
Subordinated debt	-	11,000	-	-	-	11,000
Customer accounts	231,050	150,093	115,593	18,417	81	515,234
Debt securities issued	16,339	33,300	22	-	-	49,661
Other financial liabilities	5,709	88	13	1	-	5,811
TOTAL FINANCIAL LIABILITIES	433,434	557,249	185,323	18,431	81	1,194,518
CURRENCY POSITION	195,920	72,706	(65,427)	(1,955)	3,103	

Derivative financial instruments and spot contracts

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

	BYR	USD 1USD=BYR 2,200	EUR 1EUR=BYR 3,077.14	RUB 1RUB=BYR 76.89	Other currencies	31 December 2008 Total
Claims on forward and spot transactions	-	62,415	79,852	4,570	12,956	159,793
Obligations on forward and spot transactions	(22,971)	(97,998)	(24,617)	-	(15,783)	(161,369)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT TRANSACTIONS POSITION	(22,971)	(35,583)	55,235	4,570	(2,827)	
TOTAL CURRENCY POSITION	172,949	37,123	(10,192)	2,615	276	

	BYR	USD 1USD=BYR 2,150	EUR 1EUR=BYR 3,166.73	RUB 1RUB=BYR 87.61	Other currencies	31 December 2007 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	28,330	5,002	3,916	2,938	73	40,259
Financial assets at fair value through profit or loss	1,643	62,444	-	2,471	-	66,558
Derivative financial instruments	181	-	-	-	-	181
Due from banks	19,626	24,012	3,518	21,820	617	69,593
Loans to customers	122,508	427,579	66,787	26,367	4,296	647,537
Investments available for sale	68,530	888	-	755	-	70,173
Other financial assets	274	-	-	-	-	274
TOTAL FINANCIAL ASSETS	241,092	519,925	74,221	54,351	4,986	894,575
FINANCIAL LIABILITIES:						
Derivative financial instruments	385	87	-	-	-	472
Loans from the National Bank of the Republic of Belarus	-	20,232	-	-	-	20,232
Due to banks and other financial institutions	40,218	305,926	36,025	29,218	-	411,387
Subordinated debt	-	10,750	-	-	-	10,750
Customer accounts	180,212	163,663	47,672	10,970	109	402,626
Debt securities issued	1	-	-	-	-	1
Other financial liabilities	2,510	286	46	3	1	2,846
TOTAL FINANCIAL LIABILITIES	223,326	500,944	83,743	40,191	110	848,314
CURRENCY POSITION	17,766	18,981	(9,522)	14,160	4,876	

Derivative financial instruments and spot contracts

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

	BYR	USD 1USD= BYR 2,150	EUR 1EUR=BYR 3,166.73	RUB 1RUB=BYR 87.61	Other currencies	31 December 2007 Total
Claims on forward and spot transactions	6,067	12,537	32,209	4,295	3,476	58,584
Obligations on forward and spot transactions	(7,567)	(11,619)	(6,077)	(22,870)	(10,638)	(58,771)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT TRANSACTIONS POSITION	(1,500)	918	26,132	(18,575)	(7,162)	
TOTAL CURRENCY POSITION	16,266	19,899	16,610	(4,415)	(2,286)	

Currency risk sensitivity

The following tables detail the Bank's sensitivity to an increase and decrease in the USD by 1%, EUR and RUB by 10% against the BYR. 1% for USD and 10% for other currencies is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. As at 31 December 2008 in connection with volatility in financial markets, as it is disclosed in Note 33, the management of the Bank analyzed sensitivity to 30% increase and 10% decrease in foreign currencies' rates against BYR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for an anticipated value change in foreign currency rates.

	At 31 December 2008		At 31 December 2007	
	BYR/USD +30%	**BYR/USD -10%**	**BYR/USD +1%**	**BYR/USD -1%**
Impact on profit before income tax	11,137	(3,712)	199	(199)
Impact on equity	11,137	(3,712)	199	(199)

	At 31 December 2008		At 31 December 2007	
	BYR/EUR +30%	**BYR/EUR -10%**	**BYR/EUR +10%**	**BYR/EUR -10%**
Impact on profit before income tax	(3,058)	1,019	1,661	(1,661)
Impact on equity	(3,058)	1,019	1,661	(1,661)

	At 31 December 2008		At 31 December 2007	
	BYR/RUB +30%	**BYR/RUB -10%**	**BYR/RUB +10%**	**BYR/RUB -10%**
Impact on profit before income tax	785	(262)	(442)	442
Impact on equity	785	(262)	(442)	442

Limitations of sensitivity analysis

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

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

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

Price risk

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

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

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

	31 December 2008		**31 December 2007**	
	3% increase in securities price	**3% decrease in securities price**	**3% increase in securities price**	**3% decrease in securities price**
Impact on profit before tax	1,770	(1,770)	1,997	(1,997)
Impact on equity	6,701	(6,701)	4,102	(4,102)

33. VOLATILITY IN GLOBAL AND LOACAL MARKETS

Operating environment – The principal business activities of the Bank are with the Republic of Belarus. Recently the Government of the Republic of Belarus has effected certain liberal changes to economic legislation, however the economy of the Republic of Belarus is still characterized by relatively high rates of taxation and extensive statutory regulation. Laws and regulations defining the business environment in the Republic of Belarus are at the stage of development and subject to frequent changes. The future direction of the economic policy of the Government of the Republic of Belarus can have an effect on the recoverability of the Bank's assets and the ability of the Bank to pay its debts as they mature.

Volatility in global financial markets and financial market of the Republic of Belarus – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets as well as of its impact on corporate sector of the economy both globally and in Belarus, notwithstanding any potential economic stabilization measures that may be put into place by the Government of the Republic of Belarus and the National bank, there are, as at the date these financial statements are authorized for issue, economic uncertainties surrounding the continual availability and cost of credit both for the Bank and its counterparties. The economic uncertainties may continue in the foreseeable future and, as a consequence, there is a probability that assets of the Bank may be not be recovered at their carrying amount in the ordinary course of business, and profitablity of the Bank negatively affected.

Devaluation of national currency – Effective from 2 January 2009 the National Bank has pegged the Belarusian rouble to a currency basket, divided equally into US dollars, Euro and Russian roubles and announced the decline in value of Belarusian rouble against these three currencies by approximately 20 per cent in comparison to their individual exchange rates as at 31 December 2008.

The devaluation of the Belarusian rouble resulted in net translation loss of BYR 1,227 million in respect of the open balance sheet currency position of the Bank existing as at 31 December 2008, and increase in the fair value of derivative financial instruments by BYR 3,210 million.

Interest rates – Effective from 8 January 2009, the National Bank's refinance rate was increased from 12 to 14 percent. The growth of interest rates both for local and foreign currency instruments in early 2009 resulted in a decrease in fair value of the financial assets and liabilities with fixed interest rates. However, as most of the financial instruments recognized in the balance sheet of the Bank are not traded on an active market, it is impracticable to reliably estimate the effect on the financial statements.

Government debt – On 26 January 2009 Standard&Poor’s Ratings Services affirmed its previously issued sovereign credit rating of the Republic of Belarus - 'B+' for foreign currency denominated liabilities and 'BB' for long-term local currency denomianted liabilities and 'B' for short-term local currency denominated liabilities. The outlook remains negative. In early 2009 the Government of the Republic of Belarus attracted loans from International Monetary Fund and the Government of Russian Federation to support national currency rate and local economy.

The management of the Bank made its best estimate on the recoverability and classification of recorded assets and completeness of recorded liabilities. However, the uncertainty described above still exists and the Bank may continue to be affected by it.