BELGAZPROMBANK

Financial Statements
For the Year Ended 31 December 2009

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 2009

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 2009, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting 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 2009 were authorized for issue on 1 March 2010 by the Chairman of the Board of Belgazprombank.

Chairman of the Board	Chief Accountant
V. Babariko	T. Pivovar
1 March 2010	1 March 2010
Minsk	Minsk

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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 statement of financial position as at 31 December 2009, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Belgazprombank as at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

1 March 2010
Minsk

BELGAZPROMBANK

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	4, 27	242,500	159,075
Interest expense	4, 27	(134,985)	(81,340)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		107,515	77,735
Provision for impairment losses on interest bearing assets	5, 27	(31,227)	(12,754)
NET INTEREST INCOME		76,288	64,981
Net gain on foreign exchange operations	6	23,047	29,540
Net gain/(loss) on derivative financial instruments with foreign currency		18,070	(4,012)
Fee and commission income	7, 27	52,312	36,080
Fee and commission expense	7	(7,741)	(11,494)
Net loss on investments available for sale		(159)	(41)
Net gain/(loss) on securities at fair value through profit or loss	27	6,591	(6,798)
Net loss on debt securities issued		(241)	-
(Other provisions)/recovery of other provisions	5	(660)	493
Other income		5,288	1,981
NET NON-INTEREST INCOME		96,507	45,749
OPERATING INCOME		172,795	110,730
OPERATING EXPENSES	8, 27	(81,492)	(66,016)
PROFIT BEFORE INCOME TAXES		91,303	44,714
Income tax expense	9	(19,329)	(10,916)
NET PROFIT		71,974	33,798

Chairman of the Board
V. Babariko
1 March 2010
Minsk

Chief Accountant
T. Pivovar
1 March 2010
Minsk

The notes on pages 10-59 form an integral part of these financial statements.

BELGAZPROMBANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009
(in millions of Belarusian Roubles)

	Year ended 31 December 2009	Year ended 31 December 2008
NET PROFIT	71,974	33,798
OTHER COMPREHENSIVE INCOME/(LOSS)		
Transfer of accumulated losses from comprehensive income to profit or loss upon disposal of investments available for sale	276	-
Net change in fair value of investments available for sale	(75)	(332)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	201	(332)
TOTAL COMPREHENSIVE INCOME	72,175	33,466

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1 March 2010
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BELGAZPROMBANK

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009
(in millions of Belarusian Roubles)

	Notes	31 December 2009	31 December 2008
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	10	95,829	82,117
Precious metals		632	646
Securities at fair value through profit or loss	11, 27	10,421	59,001
Derivative financial instruments	12, 27	18,040	1,342
Due from banks	13, 27	350,931	102,050
Loans to customers	14, 27	1,331,582	1,010,375
Investments available for sale	15	210,512	164,359
Non-current assets held for sale	16	12,882	13,518
Property, equipment and intangible assets	17	56,342	37,551
Other assets	18	13,067	7,408
TOTAL ASSETS		2,100,238	1,478,367
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments	12	2,780	1,763
Loans from the National Bank of the Republic of Belarus	19	12,227	94,662
Due to banks and other financial institutions	20, 27	437,179	516,387
Customer accounts	21, 27	1,008,138	515,234
Debt securities issued	22	61,151	49,661
Current income tax liabilities		1,255	881
Deferred income tax liabilities	9	1,762	-
Other liabilities	23	9,867	7,394
Subordinated debt	24, 27	14,315	11,000
Total liabilities		1,548,674	1,196,982
EQUITY:			
Share capital	25	434,316	226,641
Investments available for sale revaluation reserve		(75)	(276)
Retained earnings		117,323	55,020
Total equity		551,564	281,385
TOTAL LIABILITIES AND EQUITY		2,100,238	1,478,367

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V. Babariko
1 March 2010
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Minsk

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(in millions of Belarusian Roubles)

	Notes	Share Capital	Investments available for sale revaluation reserve	Retained earnings	Total equity
31 December 2007		65,766	56	25,083	90,905
Share capital increase by issue of ordinary shares	25	160,875	-	-	160,875
Total comprehensive income for the year		-	(332)	33,798	33,466
Dividends declared	25	-	-	(3,861)	(3,861)
31 December 2008		226,641	(276)	55,020	281,385
Share capital increase by issue of ordinary shares	25	207,675	-	-	207,675
Total comprehensive income for the year		-	201	71,974	72,175
Dividends declared	25	-	-	(9,671)	(9,671)
31 December 2009		434,316	(75)	117,323	551,564

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1 March 2010
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		91,303	44,714
Adjustments for:			
Provision for impairment losses on interest bearing assets		31,227	12,754
Other provisions/(recovery of other provisions)		660	(493)
Depreciation and amortization		4,308	2,912
Loss on sale of investments available for sale		159	41
(Gain)/loss on disposal of property, equipment and intangible assets		(376)	27
(Recovery of accrual)/accrual of compensation payable to employees		(82)	3,980
Change in interest accruals, net		3,878	(9,355)
Translation differences, net		(3,573)	(9,824)
Net change in fair value of derivative financial instruments		(15,681)	130
Cash flows from operating activities before changes in operating assets and liabilities		111,823	44,886
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		1,979	(7,256)
Due from banks		(182,488)	25,216
Precious metals		14	(93)
Securities at fair value through profit or loss		61,392	7,138
Loans to customers		(185,970)	(366,823)
Other assets		2,757	(783)
Increase/(decrease) in operating liabilities:			
Loans from the National Bank of the Republic of Belarus		(86,520)	74,054
Due to banks and other financial institutions		(218,006)	213,325
Customer accounts		387,105	115,078
Other liabilities		519	1,650
Cash (outflow)/inflow from operating activities before taxation		(107,395)	106,392
Income taxes paid		(17,193)	(11,860)
Net cash (outflow)/inflow from operating activities		(124,588)	94,532

The notes on pages 10-59 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 2009	Year ended 31 December 2008
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(26,111)	(15,689)
Proceeds on sale of property, equipment and intangible assets		414	235
Proceeds on sale of non-current assets held for sale		10,066	-
Purchase of investments available for sale, net		(43,457)	(94,637)
Net cash outflow from investing activities		(59,088)	(110,091)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		207,675	160,875
Raising finance by issuing debt securities, net		3,055	47,977
Repayment of loans from international financial institutions		(21,673)	(111,457)
Attraction of loans from international financial institutions		56,840	-
Dividends paid		(9,671)	(3,861)
Net cash inflow from financing activities		236,226	93,534
NET INCREASE IN CASH AND CASH EQUIVALENTS		52,550	77,975
Effect of changes in foreign exchange rates on cash and cash equivalents		5,515	(1,650)
CASH AND CASH EQUIVALENTS, beginning of year	11	119,867	43,542
CASH AND CASH EQUIVALENTS, end of year	11	177,932	119,867

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

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.

Chairman of the Board
V. Babariko
1 March 2010
Minsk

Chief Accountant
T. Pivovar
1 March 2010
Minsk

The notes on pages 10-59 form an integral part of these financial statements.

(in millions of Belarusian Roubles unless otherwise stated)

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 2009 and 2008 the Bank had 8 regional branches in the Republic of Belarus.

As at 31 December 2009 and 2008 the structure of the Bank's share capital was as follows:

Shareholder	**31 December 2009, %**	**31 December 2008, %**
JSC "Gazprom" (Russian Federation)	49.02	48.08
Gazprombank (Open Joint Stock Company) (Russian Federation)	49.02	48.08
JSC "Beltransgaz" (Republic of Belarus)	1.43	2.77
State Property Committee of the Republic of Belarus	0.53	1.03
Other	less than 0.01	0.04
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 1 March 2010.

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

These financial statements are presented in millions of Belarusian 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 of certain assets and liabilities, income and expenses to appropriate financial statement captions to reflect the economic substance of underlying transactions.

Areas of significant management 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 end of reporting period, 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 end of reporting period, 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 2009	**31 December 2008**
Allowance for impairment losses on loans to customers	44,739	25,113
Derivative financial instruments with foreign currency (asset)	17,888	810
Derivative financial instruments with foreign currency (liability)	(2,703)	(1,267)
Provisions for financial guarantees and letters of credit	284	54

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 group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the 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.

Derivative financial instruments
Derivative financial instruments, representing foreign currency forwards do not have an active market and are measured using interest rates parity model. Fair values are determined based on risk-free rates typical for the market in the Republic of Belarus 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 in its statement of financial position 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.

Derecognition of financial assets and liabilities

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

Financial liabilities
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 income statement.

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 USD/BYR 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 with foreign currency are initially recorded and subsequently measured at fair value. Derivatives fair values are determined using interest rate parity 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.

Derivative financial instruments with securities are are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices on underlying securities to determine fair value of derivative financial instruments with securities.

Loans to customers

Loans to customers are non-derivative financial 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.

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 statement of financial position 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.

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 2009	**Year ended 31 December 2008**
Buildings	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 the end of each reporting 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax 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.

Contingencies

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

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 end of the reporting period 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 end of reporting period. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

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 2009	**31 December 2008**
USD/BYR	2,863.00	2,200.00
EUR/BYR	4,106.11	3,077.14
RUB/BYR	94.66	76.89

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position 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 and amended standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2009. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policy that has affected the amounts reported for the current or prior years.

Amendment to IAS 1 "Presentation of Financial Statements" – On 6 September 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity's financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009. Due to this amendment the Bank changed the title "balance sheet" into "statement of financial position" and also chose to present a statement of comprehensive income in two statements: a separate income statement and separate statement of comprehensive income displaying components of other comprehensive income.

Standards and interpretations in issue and not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Standards and Interpretations were in issue but not yet effective.

Financial instruments: Classification and Measurement (Exposure draft) – In July 2009 IASB issued an exposure draft that is a part of IASB's project to replace IAS 39: "Recognition and Measurement". The exposure draft proposes a new classification and measurement model for financial assets and financial liabilities. All recognized financial assets and financial liabilities that are currently in the scope of IAS 39 will be measured either at amortized cost or fair value. A financial instrument that has only basic loan features and is managed on a contractual yield basis is measured at amortized cost, unless designated as at fair value through profit or loss. Those financial instruments measured at fair value will either be classified as at fair value through profit or loss or in the case of investment in equity instruments that are not held for trading, designated irrevocably as at fair value through other comprehensive income. All investments in equity instruments and derivatives linked to equity instruments in the scope of IAS 39 must be measured at fair value, i.e. an unquoted equity investment cannot be measured at cost less impairment when fair value cannot be reliably measured as currently required by IAS 39. The exposure draft does not permit reclassifications out of or into amortized cost, at fair value through profit or loss or at fair value through other comprehensive income after initial recognition. The effective date of these changes is not yet determined.

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. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income		
Interest income on financial instruments at fair value:		
Interest on investment available for sale	17,942	11,632
Interest on securities at fair value through profit or loss	1,257	2,485
Interest income on financial instruments recorded at amortized cost:		
Interest on loans to customers	206,554	139,846
Interest on due from banks	16,688	5,015
Other interest income	59	97
Total interest income	242,500	159,075
Interest expense		
Interest expense on financial instruments recorded at amortized cost:		
Interest on customer accounts	76,069	39,152
Interest on deposits from banks and other financial institutions, on loans from National bank and subordinated debt	53,443	40,772
Interest on debt securities issued	5,473	1,416
Total interest expense	134,985	81,340
Net interest income before provision for impairment losses on interest bearing assets	107,515	77,735

5. 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 2007	13,010
Provision	12,754
Write-off of assets	(651)
31 December 2008	25,113
Provision	31,227
Write-off of assets	(11,601)
31 December 2009	44,739

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

	Other assets	**Guarantees and other commitments**	**Total**
31 December 2007	56	604	660
Provision/(recovery of provision)	57	(550)	(493)
31 December 2008	113	54	167
Provision	198	462	660
Payment on a guarantee contract	-	(232)	(232)
31 December 2009	311	284	595

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

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Dealing, net	19,474	19,716
Translation differences, net	3,573	9,824
Total net gain on foreign exchange operations	23,047	29,540

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income		
Settlement and cash operations with clients	25,205	21,662
Foreign exchange operations	13,603	3,127
Plastic cards operations	11,046	8,480
Documentary operations	1,396	584
Settlements with banks	660	726
Other	402	1,501
Total fee and commission income	52,312	36,080
Fee and commission expense		
Plastic cards operations	4,303	3,546
Interbank accounts maintenance	1,451	1,213
Documentary operations	1,022	371
Operations with securities	499	457
Foreign exchange and cash operations	277	260
“Delay” loan product processing	-	4,785
Other	189	862
Total fee and commission expense	7,741	11,494

8. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Staff costs	33,932	32,661
Social security contributions	10,376	8,705
Rent and property and equipment maintenance	4,529	3,573
Depreciation and amortization	4,308	2,912
Expenses for services of automated interbank settlement system	3,716	1,473
Contributions to deposits protection fund	3,595	1,263
Stationery and office expenses	3,346	1,615
Taxes, other than income taxes	2,717	2,866
Charity and sponsorship expenses	1,920	869
Remuneration to the non-employee members of the Board	1,616	646
Advertising costs	1,479	1,036
Communications	1,318	1,044
Information and consulting services	1,057	927
Expenses on maintenance of banking software	1,053	1,918
Security expenses	989	897
Vehicles maintenance and fuel expenses	798	646
Other expenses	4,743	2,965
Total operating expenses	81,492	66,016

9. INCOME TAXES

The Bank provides for current income taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2009 and 2008, 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 2009 and 2008 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 2009 and 2008 comprise:

	31 December 2009	**31 December 2008**
Deductible temporary differences:		
Derivative financial instruments	8,151	371
Property, equipment and intangible assets	7,247	4,800
Other liabilities	6,097	5,274
Other assets	2,268	1,767
Loans to customers	210	10,998
Total deductible temporary differences	23,973	23,210
Taxable temporary differences:		
Accrued interest income	24,445	19,264
Due to banks and other financial institutions	2,428	3,045
Due from banks	2,324	288
Provision for guarantees and letters of credit	1,454	382
Financial instruments available for sale	26	30
Total taxable temporary differences	30,677	23,009
Net (taxable)/deductible temporary differences	(6,704)	201
Deferred tax (liabilities)/assets at the combined statutory tax rate 26.28%	(1,762)	53
Less unrecognised assets	-	(53)
Net deferred tax (liabilities)/assets	(1,762)	-

Relationships between tax expenses and accounting profit for the years ended 31 December 2009 and 2008 are explained as follows:

	Year ended 31 December 2009	**Year ended 31 December 2008**
Profit before income taxes	91,303	44,714
Combined statutory tax rate	26.28%	26.28%
Tax at the statutory tax rate	23,994	11,751
Tax effect of non-deductible expenses	2,443	2,959
Tax effect of non-taxable income and other deductions	(6,422)	(2,698)
Tax effect of change in tax base of property and equipment due to revaluation performed for tax purposes	(633)	(1,149)
Change in unrecognized deferred tax assets	(53)	53
Income tax expense	19,329	10,916

	Year ended 31 December 2009	**Year ended 31 December 2008**
Current income tax expense	17,567	12,213
Deferred income tax expense/(credit)	1,762	(1,297)
Total income tax expense recognized in income statement	19,329	10,916

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

	Year ended 31 December 2009	**Year ended 31 December 2008**
Deferred tax liabilities at beginning of the period	-	1,297
Deferred income tax expense/(credit)	1,762	(1,297)
Deferred tax liabilities at end of the period	1,762	-

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

	Year ended 31 December 2009	**Year ended 31 December 2008**
Unrecognized deferred tax assets at beginning of the period	53	-
Change in unrecognized deferred tax assets	(53)	53
Unrecognized deferred tax assets at end of the period	-	53

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

	31 December 2009	31 December 2008
Cash	50,994	37,428
Correspondent accounts with the National Bank	25,245	23,120
Balance on reserve deposit account with the National Bank	19,590	21,569
Total cash and balances with the National Bank	95,829	82,117

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 2009	31 December 2008
Cash and balances with the National Bank	95,829	82,117
Due from banks in OECD countries with original maturity within 90 days	101,693	59,319
	197,522	141,436
Less minimum reserve deposits with the National Bank	(19,590)	(21,569)
Total cash and cash equivalents	177,932	119,867

11. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	Interest to nominal	31 December 2009	31 December 2008
Bonds:			
JSC “Gazprom” eurobonds (Russian Federation)	8.63%	3,187	-
German Federal Treasury bonds	3.75%	-	31,832
US Treasury bonds	1.25%	-	22,269
Bonds issued by non-resident banks	9.75%	-	1,958
Shares:			
Shares of Russian companies		4,530	2,124
Shares of Russian banks		2,704	482
Depositary receipts issued by a non-resident bank		-	336
Total securities at fair value through profit or loss		10,421	59,001

12. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2009 derivative financial instruments comprise:

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

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

As at 31 December 2008 derivative financial instruments comprise forward contracts with the National Bank at fair value of BYR 210 million (assets).

As at 31 December 2008 derivative financial instruments comprise:

	Nominal amount (in units of purchased currency/ contractual value of securities to be purchased)	Net fair value	
		Asset	**Liability**
Foreign currency forward and swap contracts:			
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)
Securities forward contracts:			
Bank "Zenit" eurobonds (Russian Federation)	USD 2,936,659	-	(7)
CJSC "Alfa-bank" eurobonds (Ukraine)	USD 1,915,383	-	(244)
JSC "Gazprom" eurobonds (Russian Federation)	USD 2,700,000	532	-
JSC "MDM Bank" eurobonds (Russian Federation)	USD 2,010,878	-	(245)
Total derivative financial instruments		1,342	(1,763)

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2009	31 December 2008
Time deposits with other banks	213,256	12,445
Correspondent and demand accounts with other banks	137,675	89,102
Loans under reverse repurchase agreements	-	503
Total due from banks	350,931	102,050

As at 31 December 2009 and 2008 the Bank had amounts due from two banks and one bank totaling BYR 194,057 million and BYR 33,064 million, respectively, each individually exceeding 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 2009 and 2008 included in due from banks were amounts of BYR 15,090 million and BYR 12,254 million, respectively, placed as guarantee deposits on letters of credit, guarantees and plastic cards operations with the international payment systems.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2009	31 December 2008
Originated loans	1,328,866	982,104
Net investments in finance lease	47,455	53,384
	1,376,321	1,035,488
Less allowance for impairment losses	(44,739)	(25,113)
Total loans to customers	1,331,582	1,010,375

Movements in allowances for impairment losses for the years ended 31 December 2009 and 2008 are disclosed in Note 5.

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

	31 December 2009	31 December 2008
Loans collateralized by real estate and rights thereon	311,650	210,350
Loans collateralized by equipment and rights thereon	191,417	228,558
Loans collateralized by guarantees of individuals	189,175	189,275
Loans collateralized by liens over receivables	172,636	2,389
Loans collateralized by cash or guarantee deposits	126,589	2,219
Loans collateralized by guarantees of enterprises	88,722	68,300
Loans collateralized by inventories	87,978	97,386
Loans collateralized by other or mixed types of collateral	208,154	237,011
	1,376,321	1,035,488
Less allowance for impairment losses	(44,739)	(25,113)
Total loans to customers	1,331,582	1,010,375

	31 December 2009	31 December 2008
Analysis by sector:		
Individuals	435,858	415,886
Trade	284,696	266,575
Production	281,741	174,876
Gas transportation	180,588	-
Real estate	68,357	41,384
Construction	62,290	67,855
Transport and communication	37,918	42,342
Lease companies	13,803	15,400
Telecom and information services	6,036	4,669
Utilities	1,217	846
Agriculture	1,167	1,384
Other	2,650	4,271
	1,376,321	1,035,488
Less allowance for impairment losses	(44,739)	(25,113)
Total loans to customers	1,331,582	1,010,375

As at 31 December 2009 the Bank provided loans to one customer totaling BYR 180,588 million before allowance for impairment losses where exposure of the borrower individually exceeded 10% of the Bank's equity.

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.

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 2009	31 December 2008
Car loans	95,833	98,327
Plastic cards	90,784	81,068
Consumer loans	86,953	82,742
Loans to finance real estate	75,119	57,426
Consumer loans "Delay"	73,257	72,570
Microloans to individual entrepreneurs	13,270	23,682
Other	642	71
	435,858	415,886
Less allowance for impairment losses	(10,762)	(5,634)
Total loans to individuals	425,096	410,252

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.

Analysis of loans and allowances for impairment losses by class of loans and impairment assessment method as at 31 December 2009 and 2008 is presented in the following table.

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

		31 December 2008	
	Loans before allowance for impairment losses	**Allowance for impairment losses**	**Loans less allowance for impairment losses**
Loans impaired individually	355,777	(17,496)	338,281
Loans impaired on the group basis	679,711	(7,617)	672,094
Total loans to customers	1,035,488	(25,113)	1,010,375

Interest income on impaired loans to customers for the years ended 31 December 2009 and 2008 amounted to BYR 206,554 million and BYR 139,846 million respectively (Note 4).

The components of net investment in finance lease as at 31 December 2009 and 2008 are as follows:

	31 December 2009	31 December 2008
Less than one year	31,678	27,190
From one year to five years	31,239	41,865
More than five years	-	10
Minimum lease payments	62,917	69,065
Less: unearned finance income	(15,462)	(15,681)
Net investment in finance lease	47,455	53,384
Current portion	20,452	20,034
Long-term portion	27,003	33,350
Net investment in finance lease	47,455	53,384

15. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Interest to nominal	31 December 2009	Interest to nominal	31 December 2008
Long-term government bonds	11%	154,293	9%-10%	143,974
Bonds issued by Belarusian banks, BYR	19%	29,708	14%	9,992
Bonds issued by Belarusian banks, USD	11%	26,079		-
Units in investment funds		362		123
Other unquoted equity instruments		70		83
Bonds issued by Belarusian companies, BYR		-	12.5%	10,187
Total investments available for sale		210,512		164,359

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

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

As at 31 December 2009 GDO at fair value of BYR 107,812 million were pledged as collateral under repurchase agreements with Belarusian banks with maturity up to 1 month from the reporting date (Note 20).

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 20).

16. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2009 and 2008 the Bank had 2 and 81 flats, respectively, in the block of flats in Vitebsk, which were received in December 2008 through repossession of collateral pledged under the default loan. Receivable for a part of flats sold in 2009 to a wholesale buyer is included into other assets (Note 18).

As at 31 December 2009 the Bank also had 32 flats in the block of flats in Minsk, which were received in October 2009 through repossession of collateral pledged under the default loan.

The Bank searches for the buyers, including wholesale ones, and holds negotiations with potential buyers. The management of the Bank expects the sale of all non-current assets held for sale to occur in 2010.

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings	Computer equipment, furniture and other equipment	Vehicles	Construction in progress	Intangible assets	Total
At initial cost, restated for hyperinflation effect						
31 December 2007	19,529	12,123	2,620	659	1,742	36,673
Additions	3,517	3,926	670	1,567	3,720	13,400
Disposals	(27)	(587)	(351)	(8)	(297)	(1,270)
31 December 2008	23,019	15,462	2,939	2,218	5,165	48,803
Additions	4,876	6,336	579	7,446	3,900	23,137
Disposals	-	(612)	(132)	-	(1,179)	(1,923)
31 December 2009	27,895	21,186	3,386	9,664	7,886	70,017
Accumulated depreciation, restated for hyperinflation effect						
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
Charge for the year	594	1,855	431	-	1,428	4,308
Eliminated on disposals	-	(574)	(132)	-	(1,179)	(1,885)
31 December 2009	2,842	8,001	1,385	-	1,447	13,675
Net book value						
31 December 2009	25,053	13,185	2,001	9,664	6,439	56,342
31 December 2008	20,771	8,742	1,853	2,218	3,967	37,551

18. OTHER ASSETS

Other assets comprise:

	31 December 2009	31 December 2008
Other financial assets:		
Amount receivable from the buyer of non-current assets held for sale (Note 16)	4,417	-
Other debtors	1,890	1,303
Less allowance for impairment losses	(311)	(113)
Total other financial assets	5,996	1,190
Other non-financial assets:		
Taxes recoverable and prepaid other than income taxes	1,541	3,886
Prepayments for fixed assets and other assets	4,218	1,244
Inventory in stock	600	528
Other non-financial assets	712	560
Total other assets	13,067	7,408

Movements in allowance for impairment losses on other assets for the years ended 31 December 2009 and 2008 are disclosed in Note 5.

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

Loans from National Bank comprise:

	31 December 2009	31 December 2008
Loan from National Bank financed by the international financial institutions for lending to small and medium size enterprises	12,227	14,662
Loan from National Bank	-	80,000
Total loans from National Bank	12,227	94,662

As at 31 December 2009 and 2008 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 enterprises in the Republic of Belarus. Interest rate on the loan is floating and is linked to LIBOR plus 2 per cent.

As at 31 December 2008 the Bank received a short-term loan with maturity date of 16 February 2009. Interest rate on the loan was floating and was linked to the overnight loan rate set by the National Bank plus 3 per cent.

20. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2009	31 December 2008
Loans from banks and non-banking financial institutions	190,265	376,056
Loans from EBRD	116,360	22,662
Loans under repurchase agreements	99,170	96,557
Correspondent and demand accounts of other banks	27,098	13,948
Loan from International Financial Corporation (“IFC”)	4,286	7,164
Total due to banks and other financial institutions	437,179	516,387

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

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

As at 31 December 2009 and 2008 liabilities under repurchase agreements were collateralized by long-term government bonds (Note 15).

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2009	31 December 2008
Time deposits	640,910	348,068
Current/settlement accounts and deposits repayable on demand	367,228	167,166
Total customer accounts	1,008,138	515,234

As at 31 December 2009 and 2008 customer accounts amounting to BYR 319,321 million (32% of the total) and BYR 97,034 million (10% of the total) were due to three customers which represented significant concentration.

As at 31 December 2009 and 2008 customer accounts of BYR 28,049 million and BYR 10,318 million, respectively, were held as security against letters of credit, guarantees and loans issued by the Bank.

Analysis by sector:	**31 December 2009**	**31 December 2008**
Individuals	364,906	191,500
Gas transportation	201,973	28,898
Manufacturing	178,025	89,851
Trade	139,157	85,804
Investments and real estate operations	43,182	43,164
Construction	20,680	19,539
Insurance and financial services	14,367	13,391
Transport and communication	10,758	9,455
Other	35,090	33,632
Total customer accounts	1,008,138	515,234

22. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2009	**31 December 2008**
Bonds	61,150	49,660
Promissory notes	1	1
Total debt securities issued	61,151	49,661

As at 31 December 2009 bonds issued by the Bank are represented by the following issues:

	Currency	**Nominal rate**	**Maturity date**	**31 December 2009**
Bonds held by legal entities	USD	9.50%	21 December 2011	43,775
Bonds held by legal entities	EUR	9.50%	21 December 2011	14,371
Bonds held by legal entities	USD	8%	17 August 2011	1,991
Bonds held by individuals	USD	9%	1 April 2011	624
Bonds held by individuals	EUR	9%	1 April 2011	389
Total bonds issued by the Bank				61,150

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

	Currency	**Nominal rate**	**Maturity date**	**31 December 2009**
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

23. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2009	31 December 2008
Other financial liabilities:		
Compensation payable to employees	5,192	5,274
Other creditors and accrued expenses	850	476
Settlements for property and equipment and other assets acquired	-	61
Total other financial liabilities	6,042	5,811
Other non-financial liabilities:		
Charges payable to deposits protection fund	1,075	-
Prepayments received	953	1,042
Taxes payable, other than income taxes	1,513	487
Provision for guarantees and other commitments	284	54
Total other liabilities	9,867	7,394

Movements in provision for guarantees and other commitments for the years ended 31 December 2009 and 2008 are disclosed in Note 5.

24. SUBORDINATED DEBT

As at 31 December 2009 and 2008 the Bank had the subordinated debt from JSC “Gazprombank” for the amount of USD 5 million, which corresponds to BYR 14,315 million and BYR 11,000 million, respectively, with a maturity date on 25 March 2012. Interest rate on the debt is floating and is linked to LIBOR (LIBOR+6%). Repayment of this debt is subordinate to the repayment of the Bank’s liabilities to all other creditors.

25. SHARE CAPITAL

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

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).

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 2009 the Bank issued 207,675 million ordinary shares in the amount of BYR 207,675 million.

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

During the years ended 31 December 2009 and 2008 the Bank declared and paid BYR 9,671 million and BYR 3,861 million dividends on ordinary and preference shares what comprised BYR 0.04 and BYR 0.07 per share for the years 2008 and 2007, respectively.

The Bank's retained earnings distributable to shareholders are limited to the amount of funds that are stated in the official financial statements prepared according to the Belarusian accounting rules. As per these financial statements at 31 December 2009 and 2008 the retained earnings comprised BYR 86,219 mln and BYR 42,639 mln, respectively (not audited). Non-distributable funds comprise tangible assets revaluation fund and reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities. In accordance with the legislation the reserve fund is created for the mentioned objectives in the amount of no less than 5% of the Bank's share capital stated in the financial statements under statutory accounting principles.

26. 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 statement of financial position.

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 284 million and BYR 54 million as at 31 December 2009 and 2008, respectively.

As at 31 December 2009 and 2008 the nominal or contract amounts of contingent liabilities and commitments were:

	31 December 2009 Nominal value	31 December 2008 Nominal value
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	21,594	9,526
Letters of credit, covered by cash	22,887	5,601
Letters of credit, not covered by cash	328	-
Commitments on loans and unused credit lines, cancellable	108,136	68,396
Commitments on loans and unused credit lines, non-cancallable	31,495	1,680
Total contingent liabilities and credit commitments	184,440	85,203

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 2009 and 2008 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 2009 and 2008.

Operating lease commitments – As at 31 December 2009 and 2008 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.

27. 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 2009		31 December 2008	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Securities at fair value through profit or loss	**7,063**	**10,421**	**1,425**	**59,001**
-shareholders	3,187		-	
-entities under common control	3,876		1,425	
Derivative financial instruments (assets)	**-**	**18,040**	**532**	**1,342**
-shareholders	-		532	
Due from banks	**6,169**	**350,931**	**4,171**	**102,050**
-shareholders	5,149		3,299	
-entities under common control	1,020		872	
Loans to customers before allowance for impairment losses	**4,849**	**1,376,321**	**3,116**	**1,035,488**
- key management personnel	4,849		3,116	
Allowance for impairment losses	**123**	**44,739**	**17**	**25,113**
- key management personnel	123		17	
Derivative financial instruments (liabilities)	**77**	**2,780**	**-**	**1,763**
-shareholders	77		-	
Due to banks and other financial institutions	**169,292**	**437,179**	**217,674**	**516,387**
- shareholders	68,201		116,566	
- entities under common control	101,091		101,108	
Customer accounts	**125,573**	**1,008,138**	**43,090**	**515,234**
- shareholders	73		-	
- entities under common control	120,879		41,132	
- key management personnel	4,621		1,958	
Subordinated debt	**14,315**	**14,315**	**11,000**	**11,000**
- shareholders	14,315		11,000	
Financial guarantees and contingent liabilities	**100**	**205,597**	**271**	**85,203**
- shareholders	-		30	
- key management personnel	100		241	

Included in the income statement for the years ended 31 December 2009 and 2008 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	**793**	**242,500**	**360**	**159,075**
- shareholders	8		17	
- entities under common control	224		104	
- key management personnel	561		239	
Fee and commission income	**363**	**52,312**	**1,064**	**36,080**
- shareholders	21		992	
- entities under common control	334		67	
- key management personnel	8		5	
Net gain/(loss) on securities at fair value through profit or loss	**4,597**	**6,591**	**(4,172)**	**(6,798)**
- securities issued by shareholders	1,039		(851)	
- securities issued by entities under common control	3,558		(3,321)	
Interest expenses	**(35,610)**	**(134,985)**	**(14,446)**	**(81,340)**
- shareholders	(12,892)		(6,637)	
- entities under common control	(22,199)		(7,611)	
- key management personnel	(519)		(198)	
Operating expenses	**(7,314)**	**(81,492)**	**(5,433)**	**(66,016)**
- key management personnel (remuneration)	(7,314)		(5,433)	
Provision for impairment losses on interest bearing assets	**(106)**	**(31,227)**	**(17)**	**(12,754)**
- key management personnel	(106)		(17)	

During the years ended 31 December 2009 and 2008 remuneration of key management personnel consisted of short-term employee benefits.

28. 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 statement of financial position of the Bank is presented below:

	31 December 2009		**31 December 2008**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the National Bank of the Republic of Belarus	95,829	95,829	82,117	82,117
Securities at fair value through profit or loss	10,421	10,421	59,001	59,001
Derivative financial instruments (assets)	18,040	18,040	1,342	1,342
Due from banks	350,931	350,931	102,050	102,050
Investments available for sale, less equity investments	210,442	210,442	164,276	164,276
Derivative financial instruments (liabilities)	2,780	2,780	1,763	1,763
Loans from the National Bank of the Republic of Belarus	12,227	12,227	94,662	94,662
Due to banks and other financial institutions	437,179	437,179	516,387	516,387
Debt securities issued	61,151	61,151	49,661	49,661
Subordinated debt	14,315	14,315	11,000	11,000

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.

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

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

	31 December 2009		31 December 2008	
	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)	Quoted prices in active market (Level 1)	Valuation techniques based on observable market data (Level 2)
Derivative financial instruments (assets)	152	17,888	532	810
Securities at fair value through profit or loss	10,421	-	59,001	-
Investments available for sale, less equity investments	362	210,080	123	164,153
Derivative financial instruments (liabilities)	77	2,703	496	1,267

29. 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 2009 the Bank's total capital amount for Capital Adequacy purposes was BYR 557,957 million and tier 1 capital amount was BYR 551,639 million with ratios of 31.45% and 31.10%, respectively.

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.

30. 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 management 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 requirements of shareholders, partners of the Bank, regulatory institutions. The Bank performs analysis of risk factors, that influence the Bank's capital, and optimizes these factors by a balanced funding policy.

31. 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 changes in interest rates, currency exchange rates, as well as securities prices. 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 internal control procedures over risks. The Board also sets general limits on risk acceptance. The Assets and Liabilities Management Committee, Credit Committees, Finance and Planning Committee and Technical Committee set certain limits and restrictions for certain banking operations, financial instruments or operators, exercise control over prescribed risk levels and carry out activities aimed at minimizing risks impact on the Bank's activities. Within authority delegated by the Management Board, Credit Committees and Assets and Liabilities Management Committee 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 collective management bodies.

Systems of risk evaluation and transfer of information on risks

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

Risk monitoring and control are mainly based on comparison of calculated indicators with the limits set by the Bank. The limits setting policy is based on the prudential ratios set by the National Bank 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 strategic priorities and analysis of the existing trends and their possible future changes submitted by risk managers.

The relevant management body of the Bank distributes limits by branches for the most significant risks subject to centralized risk management to a smaller extent. The branches must adhere to the limits set and accepted 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, the regular operating control is performed by the Department on prudential reporting and risk management during financial statements preparation in 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, and 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 policies and procedures comprise guidelines and limits aimed at maintenance of diversified portfolio.

Credit risk

Credit risk is the risk that the Bank will incur losses if the clients and counterparties do not meet their contractual obligations. The Bank manages credit risk by setting maximum risk it is ready to accept for certain counterparties, geographical and industry risk concentration, as well as by monitoring 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 probable loss amount is less than total amount of unused credit loans since in the majority of cases commitments on loans arise if the clients meet certain creditworthiness indicators. The Bank applies the same credit policy to contingent liabilities as it does to on-balance-sheet financial instruments, which is based on the procedures of approval of loans granted, setting of risk limits and constant monitoring.

During the year 2009 in the course of enhancement of the credit risk management the main policies on loans granting and monitoring were updated and toughened. A workgroup on bad debts of legal entities was established, as well as individuals' bad debts monitoring unit. The list of credit risk ratios was extended by ratios, used in the world practice of the credit risk monitoring. The applicable changes and amendments were made in the risk reporting forms.

The Bank carries out quarterly credit risk evaluation, which is based on the assessment of the probability of the events leading to risk and assessment of potential losses. Credit risk evaluation comprises quantitative and qualitative evaluation. The results of quantitative and qualitative evaluation (e.g. 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 impairment losses. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

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

	31 December 2009	**31 December 2008**
	Maximum exposure	**Maximum exposure**
Correspondent accounts in the National Bank of Republic of Belarus	25,245	23,120
Securities at fair value through profit or loss	3,187	56,059
Derivative financial instruments	18,040	1,342
Due from banks	350,931	102,050
Loans to customers	1,331,582	1,010,375
Investments available for sale	210,512	164,153
Other financial assets	5,996	1,190
Financial guarantees and similar commitments	17,602	6,008
Non-cancellable commitments on loans and unused credit lines	31,495	1,680

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

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

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

	AA	A	BBB	BB	Lower than BB-	Not rated	31 December 2008 Total
Due from the National Bank of the Republic of Belarus	-	-	-	23,120	-	-	23,120
Securities 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

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

The carrying value of impaired loans to customers is disclosed in Note 14. At 31 December 2009 and 2008 other financial assets comprised past due and impaired assets in the amount of BYR 684 million and BYR 246 million, respectively. Except for the above mentioned as at 31 December 2009 and 2008 the Bank had neither past due nor impaired financial assets.

Geographical concentration

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

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

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

	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
Securities 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)	

Liquidity risk

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

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

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

The Bank handles a diversified assets portfolio that can be realized in case of unforeseen termination of cash inflow. The Bank also concluded credit lines agreements which may be used to meet requirements in funds. Besides 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 statement of financial position as the presentation below includes maturity analysis of financial liabilities, that comprise total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**31 December 2009 Total**
FINANCIAL LIABILITIES:						
Loans from the National Bank of the Republic of Belarus	-	-	9,707	2,898	-	12,605
Due to banks and other financial institutions	135,152	37,695	97,760	191,685	-	462,292
Subordinated loan	-	-	1,156	15,744	-	16,900
Customer accounts	297,929	93,486	260,473	135,618	97,516	885,022
Debt securities issued	484	998	4,328	66,758	-	72,568
Total interest bearing financial liabilities	433,565	132,179	373,424	412,703	97,516	1,449,387
Due to banks and other financial institutions	10,673	-	-	-	-	10,673
Customer accounts	237,025	-	267	384	-	237,676
Debt securities issued	1	-	-	-	-	1
Other financial liabilities	6,042	-	-	-	-	6,042
Financial guarantees and similar commitments	17,602	-	-	-	-	17,602
Commitments on loans and unused credit lines	139,631	-	-	-	-	139,631
TOTAL FINANCIAL LIABILITIES	844,539	132,179	373,691	413,087	97,516	1,861,012

	Up to 1 month	1 month to 3 months	3 months 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 debt	-	-	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 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
Financial guarantees 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

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

Investments available for sale – the Bank’s liquidity risk management comprises evaluation of investments available for sale realization terms based on the analysis of actual securities' turnover, existence of active market and possibility of sale of these investments. As at 31 December 2009 and 2008 maturity of securities available for sale issued by the Ministry of Finance of the Republic of Belarus in the amount of BYR 154,293 million and BYR 143,974 million, respectively, was estimated by management as up to 1 month. As at 31 December 2009 and 2008 contractual maturity was from 22 March 2010 to 26 April 2010 and from 10 June 2009 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 2009 and 2008 core deposits amounted to BYR 159,639 million and BYR 105,113 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 2009 Total
FINANCIAL ASSETS:								
Securities at fair value through profit or loss	3,186	-	-	-	-	-	-	3,186
Due from banks	267,763	67	371	15,418	-	-	-	283,619
Loans to customers	133,864	126,478	498,853	517,310	44,987	10,090	-	1,331,582
Investments available for sale	188,151	21,929	-	-	-	-	-	210,080
Total interest bearing assets	592,964	148,474	499,224	532,728	44,987	10,090	-	1,828,467
Cash and balances with the National Bank of the Republic of Belarus	76,239	-	-	-	-	-	-	76,239
Securities at fair value through profit or loss	7,235							7,235
Derivative financial instruments	158	-	-	8,122	9,760	-	-	18,040
Due from banks	67,312	-	-	-	-	-	-	67,312
Investments available for sale	-	-	-	-	-	-	432	432
Other financial assets	486	141	4,572	656	-	-	141	5,996
TOTAL FINANCIAL ASSETS	744,394	148,615	503,796	541,506	54,747	10,090	573	2,003,721
FINANCIAL LIABILITIES:								
Loans from the National Bank of the Republic of Belarus	-	-	9,407	2,820	-	-	-	12,227
Due to banks and other financial institutions	134,566	35,829	86,583	169,528	-	-	-	426,506
Subordinated debt	-	-	-	14,315	-	-	-	14,315
Customer accounts	231,380	85,012	236,403	81,396	75,497	-	60,774	770,462
Debt securities issued	27	16	-	61,107	-	-	-	61,150
Total interest bearing liabilities	365,973	120,857	332,393	329,166	75,497	-	60,774	1,284,660
Derivative financial instruments	269	2,511	-	-	-	-	-	2,780
Due to banks and other financial institutions	10,673	-	-	-	-	-	-	10,673
Customer accounts	138,160	-	267	384	-	-	98,865	237,676
Debt securities issued	1	-	-	-	-	-	-	1
Other financial liabilities	6,042	-	-	-	-	-	-	6,042
TOTAL FINANCIAL LIABILITIES	521,118	123,368	332,660	329,550	75,497	-	159,639	1,541,832
Liquidity gap	223,276	25,247	171,136	211,956	(20,750)			
Interest sensitivity gap	226,991	27,617	166,831	203,562	(30,510)			
Cumulative interest sensitivity gap	226,991	254,608	421,439	625,001	594,491			
Cumulative interest sensitivity gap as a percentage of total financial assets	11.3%	12.7%	21.0%	31.2%	29.7%			

	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:								
Securities 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
Securities 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 financial 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 financial assets	3%	0%	3%	21%	19%			

Market Risk

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

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

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

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

Interest rate risk

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

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

The effect of interest rate changes on Bank's comprehensive income is evaluated based on balance amounts of assets and liabilities with variable interest rates, as well as on amounts of instruments carried at fair value with fixed interest rate as at reporting date. The estimation follows from the assumption that the Bank's portfolio structure does not change and is based on "the reasonably possible changes in risk variables". The level of these changes is determined by the risk-management and is reported to the key management personnel. The following table presents an interest rate sensitivity analysis on the Bank's comprehensive income at the year horizon. The analysis was based on the parallel shift of the yield curve including all assets and liabilities, the shift was estimated to be equal to 3 percentage points for all financial instruments disregarding of their nominal currency. In addition it was assumed assuming that the change of all types of the interest rates took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant. For the interest rate sensitivity analysis as at 31 December 2008 the 5 per cent parallel yield curves shift was assumed.

	At 31 December 2009		At 31 December 2008	
	Interest rate +3%	**Interest rate -3%**	**Interest rate +5%**	**Interest rate -5%**
Impact on profit before taxes:				
Financial assets				
Derivative financial instruments	(1,851)	1,851	(1,784)	1,784
Securities at fair value through profit or loss	(279)	279	(2,803)	2,803
Due from banks	7,811	(7,811)	923	(923)
Loans to customers	20,252	(20,252)	47,008	(47,008)
Investments available for sale	5,510	(5,510)	729	(729)
Financial liabilities				
Loans from the National Bank of the Republic of Belarus	(229)	229	(4,733)	4,733
Due to banks and other financial institutions, subordinated debt	(8,762)	8,762	(13,134)	13,134
Customer accounts	(14,796)	14,796	(15,969)	15,969
Debt securities issued	-	-	(818)	818
Net impact on profit before taxes	7,656	(7,656)	9,419	(9,419)
Impact on equity:				
Investments available for sale	(1,255)	1,255	(7,922)	8,783
Net impact on equity	6,401	(6,401)	1,497	(636)

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

Derivative financial instruments with foreign currency

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

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

	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
Securities at fair value through profit or loss	-	24,227	31,832	2,942	-	59,001
Derivative financial instruments	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 instruments	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 with foreign currency

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

	BYR	USD 1USD= BYR 2,200	EUR 1EUR= BYR 3,077.14	RUB 1RUB= BYR 76.89	Other currencies	31 December 2008 Total
Claims on derivative financial instruments	-	62,415	79,852	4,570	12,956	159,793
Obligations on derivative financial instruments	(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	

Currency risk sensitivity

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

	At 31 December 2009		At 31 December 2008	
	USD/BYR +30%	USD/BYR -10%	USD/BYR +30%	USD/BYR -10%
Impact on profit before income taxes	56,617	(18,872)	11,137	(3,712)
Impact on equity	56,617	(18,872)	11,137	(3,712)

	At 31 December 2009		At 31 December 2008	
	EUR/BYR +30%	EUR/BYR -10%	EUR/BYR +30%	EUR/BYR -10%
Impact on profit before income taxes	(4,720)	1,573	(3,058)	1,019
Impact on equity	(4,720)	1,573	(3,058)	1,019

	At 31 December 2009		At 31 December 2008	
	RUB/BYR +30%	RUB/BYR -10%	RUB/BYR +30%	RUB/BYR -10%
Impact on profit before income taxes	602	(201)	785	(262)
Impact on equity	602	(201)	785	(262)

Limitations of sensitivity analysis

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

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

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

Price risk

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

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

In the course of quantitative methods of risk assessment enhancement the Bank implemented the Value-at-Risk model for equity instruments. The assessment results are regularly reported to the management and are used for management decisions. As at 31 December 2009 the amount of possible daily losses on equity instruments portfolio makes up BYR 168 million at probability of 95%.

At the level of the case analysis (stress-testing) the Bank applies a dual approach to the risk assessment, which comprises a parallel use of simplified approaches, that allow to aggregate stress assessments of all types of risk , as well as advanced methods, which allow in detail assess the impact of market factors on Bank's activity. In accordance with the internal methodology of stress-testing the possible shock losses on equity instruments as at 31 December 2009 amount to BYR 3,998 million. The Bank used for the scenario the maximal negative stock index change of Moscow interbank currency and stock exchange for 10 days in succession (42.3%), which was observed in the period starting from 1998.

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

	31 December 2009		**31 December 2008**	
	3% increase in securities price	**3% decrease in securities price**	**3% increase in securities price**	**3% decrease in securities price**
Impact on profit before income taxes	847	(847)	2,402	(2,402)
Impact on equity	7,162	(7,162)	7,333	(7,333)

32. VOLATILITY IN GLOBAL AND LOCAL MARKETS

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

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

Ongoing Global Liquidity Crisis – The financial markets, both globally and in Belarus, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

The global financial turmoil has significantly affected Belarusian economy. It has resulted in a decrease of GDP and exports and devaluation of Belarusian Rouble.

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. During the period of 2 January 2009 to 31 December 2009 Belarusian Rouble additionally weakened against the currency basket by 7.94 per cent.

Inflation – Belarus is also facing a relatively high level of inflation (according to the government's statistical data consumer price inflation for the years ended 31 December 2009 and 2008 was 10% and 13%, respectively).

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 long-term liabilities and "BB" for long-term local currency denominated liabilities and "B" for short-term local currency denominated liabilities. The outlook remains negative. In 2009 the government of the Republic of Belarus attracted loans from the International Monetary Fund and the government of the Russian Federation to support the national currency rate and local economy.

The government initiated the adoption of a package of laws and regulations to restore investor confidence provide liquidity and support medium-term growth of economy, however at this stage there is no clarity with respect to efficiency of these measures.

While many countries have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment could slow or disrupt the Belarusian economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

While the government and the National Bank have introduced a range of stabilization measures aimed at providing liquidity to Belarusian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

Factors including increased unemployment, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, changes in economic conditions sometimes have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

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