OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

Consolidated Financial Statements

For the year ended 31 December 2008

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

TABLE OF CONTENTS

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

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

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

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2008 were authorized for issue on 6 May 2009 by the management of the Bank.

On behalf of the management:

Chairman	**Chief Accountant**
S.N. Roumas	M.A. Shapavalava
6 May 2009	6 May 2009

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Supervisory Board of the Open Joint Stock Company "Belagroprombank":

We have audited the accompanying consolidated financial statements of the Open Joint Stock Company "Belagroprombank" and its subsidiaries (hereafter - the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statements of 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2008, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

6 May 2009

Minsk

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	4, 25	977,940	584,465
Interest expense	4, 25	(763,249)	(413,171)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		214,691	171,294
Provision for impairment losses on interest bearing assets	5, 25	(71,046)	(32,760)
NET INTEREST INCOME		143,645	138,534
Net gain on foreign exchange operations	6	66,102	38,381
Fee and commission income	7, 25	205,825	147,790
Fee and commission expense	7	(13,571)	(8,701)
Net gain/(loss) on investments available for sale		768	(645)
Other provisions	5, 25	(4,298)	(5,565)
Other income	8	17,994	19,203
NET NON-INTEREST INCOME		272,820	190,463
OPERATING INCOME		416,465	328,997
OPERATING EXPENSES	9, 25	(314,203)	(251,351)
PROFIT BEFORE INCOME TAXES		102,262	77,646
Income tax expense	10, 25	(45,366)	(25,471)
NET PROFIT		56,896	52,175
Attributable to:			
Shareholders of the Bank		56,960	52,189
Minority interest		(64)	(14)

On behalf of the management:

Chairman
S.N. Roumas
6 May 2009

Chief Accountant
M.A. Shapavalava
6 May 2009

The notes on pages 9-55 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

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

	Notes	31 December 2008	31 December 2007
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	11, 25	492,470	362,562
Due from banks	12, 25	170,101	69,890
Precious metals		2,219	1,730
Derivative financial instruments	13, 25	29,911	20,790
Loans to customers	14, 25	12,550,637	6,764,775
Investments in securities available for sale	15, 25	1,384,685	540,134
Property, equipment and intangible assets	16	363,862	253,148
Current income tax assets	25	6,540	3,934
Other assets	17, 25	184,113	42,939
TOTAL ASSETS		15,184,538	8,059,902
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to the National Bank of the Republic of Belarus	18, 25	1,013,054	551,561
Due to banks	19, 25	1,870,080	1,278,642
Derivative financial instruments	13, 25	644	23
Customer accounts	20, 25	7,748,451	3,961,052
Debt securities issued	21	189,666	40,565
Current income tax liabilities	25	7,427	2,330
Commitments to provide loans at below market rates	14, 25	163,327	-
Other liabilities	22, 25	75,693	51,820
Total liabilities		11,068,342	5,885,993
EQUITY:			
Share capital	23	4,388,544	2,438,544
Treasury shares		(37)	(35)
Accumulated deficit		(272,311)	(264,686)
Total equity attributable to shareholders of the Bank		4,116,196	2,173,823
Minority interest		-	86
Total equity		4,116,196	2,173,909
TOTAL LIABILITIES AND EQUITY		15,184,538	8,059,902

On behalf of the management:

Chairman
S.N. Roumas
6 May 2009

Chief Accountant
M.A. Shapavalava
6 May 2009

The notes on pages 9-55 form an integral part of these consolidated financial statements.

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

	Notes	Share Capital	Treasury shares	Accumu-lated deficit	Total equity attributable to shareholders of the Bank	Minority interest	Total equity
1 January 2007		2,138,544	(35)	(410,671)	1,727,838	100	1,727,938
Share capital increase	23	300,000	-	-	300,000	-	300,000
Dividends declared and paid for 2006	23	-	-	(3,743)	(3,743)	-	(3,743)
Distribution of equity to the Government of the Republic of Belarus related to issuing of loans at below market rates	14, 23	-	-	(11,961)	(11,961)	-	(11,961)
Compensation received from the Government of the Republic of Belarus related to loans issued under the Government lending programs	14, 23	-	-	109,500	109,500	-	109,500
Net profit/(loss)		-	-	52,189	52,189	(14)	52,175
31 December 2007		2,438,544	(35)	(264,686)	2,173,823	86	2,173,909
Share capital increase	23	1,950,000	-	-	1,950,000	-	1,950,000
Purchase of treasury shares	23	-	(2)	-	(2)	-	(2)
Dividends declared and paid for 2007	23	-	-	(5,140)	(5,140)	(22)	(5,162)
Distribution of equity to the Government of the Republic of Belarus related to issuing of loans at below market rates	14, 23	-	-	(250,375)	(250,375)	-	(250,375)
Distribution of equity to the Government of the Republic of Belarus related to commitments to issue loans at below market rates	14, 23	-	-	(163,327)	(163,327)	-	(163,327)
Contribution to equity from the Government of the Republic of Belarus related to receiving finance at below market rates	20, 23	-	-	194,484	194,484	-	194,484
Compensation received from the Government of the Republic of Belarus related to loans issued under the Government lending programs	14, 23	-	-	159,773	159,773	-	159,773
Net profit/(loss)		-	-	56,960	56,960	(64)	56,896
31 December 2008		4,388,544	(37)	(272,311)	4,116,196	-	4,116,196

On behalf of the management:

Chairman
S.N. Roumas
6 May 2009

Chief Accountant
M.A. Shapavalava
6 May 2009

The notes on pages 9-55 form an integral part of these consolidated financial statements.

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

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		102,262	77,646
Adjustments for:			
Provision for impairment losses on interest bearing assets		71,046	32,760
Other provisions		4,298	5,565
Amortization of discount on loans to customers		(76,387)	(17,389)
Depreciation and amortization of property, equipment and intangible assets		18,589	13,944
Loss on disposal of property, equipment and intangible assets		894	204
(Gain)/loss on disposal of securities available for sale		(768)	645
Write-down of inventory to net realizable value		-	234
Change in commission accruals, net		(674)	691
Gain on derivative financial instruments, net		(8,500)	(6,970)
Translation differences, net		(17,152)	42,483
Change in interest accruals, net		(15,504)	8,440
Cash flows from operating activities before changes in operating assets and liabilities		78,104	158,253
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		(94,923)	(12,022)
Due from banks		(31,726)	74,454
Precious metals		(489)	(459)
Loans to customers		(6,019,224)	(2,471,056)
Other assets		(124,889)	(15,225)
Increase in operating liabilities:			
Due to the National Bank of the Republic of Belarus		465,186	19,569
Due to banks		587,622	419,286
Customer accounts		3,995,691	1,517,502
Other liabilities		7,917	16,682
Cash outflow from operating activities before taxation		(1,136,731)	(293,016)
Income taxes paid		(42,875)	(23,085)
Net cash outflow from operating activities		(1,179,606)	(316,101)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(141,766)	(86,072)
Proceeds on sale of property, equipment and intangible assets		3,839	1,659
Repayment of consideration for subsidiary acquisition		(1,216)	(829)
Purchase of investments available for sale, net		(1,664,448)	(519,186)
Proceeds on sale and redemption of investments available for sale		825,117	389,771
Proceeds on disposal of long-term Government bonds classified as loans and receivables		-	469,199
Net cash (outflow)/inflow from investing activities		(978,474)	254,542

The notes on pages 9-55 form an integral part of these consolidated financial statements.

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

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(5,162)	(3,743)
Share capital increase		1,950,000	150,000
Purchase of treasury shares		(2)	-
Compensation received from the Government of the Republic of Belarus related to loans issued under the Government lending programs		159,773	109,500
Proceeds on issue of debt securities, net		147,276	24,022
Net cash inflow from financing activities		2,251,885	279,779
NET INCREASE IN CASH AND CASH EQUIVALENTS		93,805	218,220
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		(2,473)	1,615
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11	300,263	80,428
CASH AND CASH EQUIVALENTS, END OF YEAR	11	391,595	300,263

Interest paid and received by the Group during the year ended 31 December 2008 amounted to BYR 743,564 million and BYR 866,364 million, respectively.

Interest paid and received by the Group during the year ended 31 December 2007 amounted to BYR 404,016 million and BYR 565,734 million, respectively.

On behalf of the management:

Chairman
S.N. Roumas
6 May 2009

Chief Accountant
M.A. Shapavalava
6 May 2009

The notes on pages 9-55 form an integral part of these consolidated financial statements.

(in millions of Belarusian Roubles unless otherwise stated)

1. ORGANISATION

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

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

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

The Bank has a special permit (license) for banking activities # 2 issued 27 October 2006 by the National Bank of the Republic of Belarus, which allows it to maintain current accounts and attract demand and time deposits from private and corporate customers, to place the attracted funds, to issue guarantees and carry out other banking operations as stipulated by the Banking Code of the Republic of Belarus. The Bank also has license for securities trading.

The Bank’s organizational structure includes the head office and 109 branches: 6 regional offices, Minsk city directorate, 101 local branch offices throughout the Republic of Belarus and Representative office in the Italian Republic.

As at 31 December 2008 and 2007 the structure of the Bank’s ownership was as follows:

Shareholder	**31 December 2008**	**31 December 2007**
State Property Committee of the Republic of Belarus	70.09%	92.27%
RUE “Belgosstrakh”	16.98%	-
RUE “Belarusian National Reinsurance Organization”	9.14%	-
Region Executive Committees	3.26%	6.66%
Other	0.53%	1.07%
Total	100.00%	100.00%

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

Name	**Country of registration and operation**	**The Bank’s ownership interest, %**		**Type of operation**
		31 December 2008	**31 December 2007**	
PUE “Ozeritskiy-Agro”	Republic of Belarus	100%	100%	Agriculture
JSC “Agroleasing”	Republic of Belarus	66.7%	66.7%	Finance leases
PUE “Agrobusinessconsult”	Republic of Belarus	100%	-	Consulting services

In December 2007 the decision to set up new subsidiary, a consulting company “Agrobusinessconsult”, has been taken by the Supervisory Board. On 19 February 2008 the entity has been included in the unified state register of legal entities, which is considered to be the date of its incorporation.

The consolidated financial statements for the year ended 31 December 2008 were authorized for issue on 6 May 2009 by the management of the Bank.

2. BASIS OF PRESENTATION

Accounting basis

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

These consolidated financial statements are presented in millions of Belarusian roubles ("BYR"), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention except for the measurement of certain financial instruments at fair value and accounting for 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 the Group's non-monetary assets, liabilities and equity as stated in measuring units as of 31 December 2005 have formed the basis for the amounts carried forward to 1 January 2006.

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

Key assumptions

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

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

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

	31 December 2008	**31 December 2007**
Allowance for impairment losses on loans to customers	237,618	166,572
Derivative financial instruments (assets)	29,911	20,790
Derivative financial instruments (liabilities)	644	23
Unrecognized deferred tax assets	5,359	2,081

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

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

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

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Belarus and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods. However, the Group does not expect dramatic worsening of these conditions in the foreseeable future.

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

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 using respective interbank market rates for foreign currencies and Belarusian rouble and exchange rates 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 consolidated financial statements is the currency of the Republic of Belarus – Belarusian Rouble.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

Recognition and measurement of financial instruments

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Belarus ("National Bank") with original maturity within 90 days, loans and advances to banks in countries included in the Organization for Economic Co-operation 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 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 rates using the BYR/USD exchange rate effective at the date. Changes in the bid prices are recorded in other income/expense.

Due from banks

In the normal course of business, the Group maintains advances and 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. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks are carried net of allowance for impairment losses, if any.

Repurchase and reverse repurchase agreements

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

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

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

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/losses 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.

Derivative financial instruments

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivatives entered into by the Group include foreign currency forwards and swaps.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative’s components using appropriate pricing or valuation models. Fair values for foreign currency contracts which do not have quoted prices available are obtained from the interest rates parity model, using the respective interbank market rates for Belarusian Roubles and foreign currencies as assumptions. 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 consolidated income statement for the period in which they arise in net gain/loss on foreign exchange operations.

Loans to customers

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

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs.

The difference between the amount of cash consideration given and the fair value of loans issued at a below market interest rate according to the Government programs is recognized in the period the loan is issued as initial recognition adjustment. Discounting is performed using approximate market rates at inception and the adjustment is recognized in the consolidated statement of changes in equity as distribution of equity to the Government of the Republic of Belarus related to issuing of loans at below market rates.

Where applicable the Group recognizes commitments to issue loans at rates lower than market at fair value with a corresponding debit to the consolidated income statement, or, for loan commitments under Government programs, to the consolidated statement of changes in equity as distribution of equity to the Government of the Republic of Belarus related to issuing of loans at below market rates. Fair value of commitments to issue loans at rates lower than market is calculated as the difference between the nominal amount of the loan commitment and the discounted future cash flows at the planned loan issue date. Subsequently the difference, if any, between the fair value of the loan commitment and initial recognition adjustment on the loan issued is recognized in the consolidated income statement.

Subsequently loans to customers are measured at amortized cost using the effective interest rate method.

Where the Group receives from the Government compensation generally being a difference between the interest rate paid by the borrowers per loan agreement issued under the Government lending programs and a current refinance rate of the National bank of Republic of Belarus plus 3%, such proceeds are recognized in the consolidated statement of changes in equity as compensation received from the Government related to loans issued under the Government lending programs in the period when they are received, unless the loan agreements contain the clause permitting the Group to charge a higher interest rate to the borrower if the compensation is not received, in which case the compensation is recognized as interest income in the consolidated income statement.

Write off of loans and advances

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

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

Allowance for impairment losses

Financial assets carried at amortized cost

The Group 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 which are carried at amortized cost 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. 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.

Available-for-sale financial assets

When there is objective evidence that available-for-sale financial assets have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated 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 consolidated income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the consolidated income statement.

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.

The change in impairment losses is charged to profit, and the total of impairment losses is deducted in arriving at assets as shown in the consolidated balance sheet. Factors that the Group considers in determining whether it has 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 in a financial asset or group of financial assets.

The Group accounts for impairment losses on financial assets at amortized cost using allowance account, for financial assets measured at cost through direct write off.

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

Derecognition of financial assets and liabilities

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

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

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

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

Finance leases

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

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

Operating leases

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

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

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 securities 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 consolidated income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest rate method, which are recognized directly in the consolidated income statement. The Group uses market prices to determine the fair value for the Group's debt investments available for sale. Dividends received are included in dividend income in the consolidated income statement.

Non-marketable equity securities are stated at cost 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 consolidated income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the consolidated income statement.

Property, equipment and intangible assets

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

Depreciation of property, equipment and intangible assets is 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:

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

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 are included in operating expenses unless they qualify for capitalization.

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

The recoverable amount is the higher of fair value less costs to sell and value in use. 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 taxes expense represents the sum of the current and deferred tax expense.

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

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, 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.

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

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

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated 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 Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Due to banks and customers

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

The difference between the amount of cash consideration received and the fair value of deposits from banks and customers received at a below market interest rate is recognized in the period the deposit is drawn as initial recognition adjustment. Discounting is performed using approximate market rates at inception and the adjustment is recognized in the consolidated income statement, or in the consolidated statement of changes in equity as contribution to equity from the Government of the Republic of Belarus related to receiving finance at below market rates.

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

Financial guarantees contracts issued and letters of credit

Financial guarantees contracts and letters of credit issued by the Group are credit guarantees that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantees 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 provision under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

Share capital

Contributions to share capital, made before 1 January 2006 are recognized at their cost restated for inflation. Contributions to share capital after 1 January 2006 are recognized at 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.

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

Retirement and other benefit obligations

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

Fee income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. All other commissions are recognized when services are provided. Other income is credited to consolidated income statement when the related transactions are completed.

Foreign currency translation

The consolidated financial statements of the Group are presented in BYR – the currency of the primary economic environment in which the entity operates (its functional currency). Monetary assets and liabilities denominated in currencies other than the Group's functional currency (foreign currencies) are translated into BYR at the appropriate rate of exchange prevailing at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

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

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

Offset of financial assets and liabilities

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

Adoption of new and revised International Financial Reporting Standards

In the current year the Group 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 reporting periods ended on 31 December 2008. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

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

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

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

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

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

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

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

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

4. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	925,907	521,827
Interest on due from banks	7,198	3,597
Other interest income	1,862	312
Total interest income on financial assets recorded at amortized cost	934,967	525,736
Interest income on financial assets recorded at fair value comprises:		
Interest on investments available for sale	42,973	58,729
Total interest income	977,940	584,465
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	517,681	263,463
Interest on due to banks	229,601	144,420
Interest on debt securities issued	15,121	2,648
Other interest expense	846	2,640
Total interest expense	763,249	413,171
Net interest income before provision for impairment losses on interest bearing assets	214,691	171,294

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Due from banks	Loans to customers	Total
31 December 2006	4	133,812	133,816
Provision	-	32,760	32,760
31 December 2007	4	166,572	166,576
Assets write-off	(4)	-	(4)
Provision		71,046	71,046
31 December 2008	-	237,618	237,618

The movements in other provisions were as follows:

	Other assets	Guarantees and other commitments	Total
31 December 2006	-	4,411	4,411
Provision	565	5,000	5,565
31 December 2007	565	9,411	9,976
(Recovery of provision)/provision	(565)	4,863	4,298
31 December 2008	-	14,274	14,274

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 2008	Year ended 31 December 2007
Dealing, net	48,950	80,864
Translation differences, net	17,152	(42,483)
Total net gain on foreign exchange operations	66,102	38,381

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income:		
Commission for transactions on customer accounts and other customer service fees	195,401	141,339
Commission on foreign exchange transactions	7,603	4,370
Other fee and commission income	2,821	2,081
Total fee and commission income	205,825	147,790
Fee and commission expense:		
Commission on transactions with plastic cards	4,931	1,748
Commission on documentary transactions	3,292	1,412
Commission on cash collection	2,040	1,632
Commission on foreign exchange transactions	842	327
Commission on transactions with banks	587	1,589
Commission on transactions with securities	254	130
Other fee and commission expense	1,625	1,863
Total fee and commission expense	13,571	8,701

8. OTHER INCOME

Other income comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Revenue on agricultural activities earned by subsidiary PUE "Ozeritsky-Agro"	14,201	16,656
Fines and penalties received	1,259	518
Income from operating leases	594	443
Other	1,940	1,586
Total other income	17,994	19,203

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Payroll and bonuses	121,998	92,326
Social security contributions	44,015	32,221
Taxes, other than income tax	29,227	25,361
Utilities, rentals and maintenance	19,774	15,582
Depreciation and amortization	18,589	13,944
Security expenses	14,892	13,564
Other short-term employee benefits	12,148	11,426
Raw materials and inventory consumed in agricultural activities	11,992	8,236
Expenses on maintenance of banking software	9,054	6,487
Stationery and other office expenses	6,382	5,586
Professional services	6,362	3,570
Vehicles maintenance and fuel	3,775	3,156
Communications and postage	3,156	2,422
Charity	1,031	3,295
Net loss on disposal of property, equipment and intangible assets	894	204
Contributions to deposits protection fund	856	600
Other expenses	10,058	13,371
Total operating expenses	314,203	251,351

10. INCOME TAXES

The Group provides for current taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2008 and 2007, tax rate for Belarusian banks and companies was 24% for the republican tax and 3% for the municipal tax. The rates were charged successively. Therefore, in 2008 and 2007 the combined rate was 26.28%. PUE "Ozeritskiy-Agro" was not subject to income taxes.

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

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

Temporary differences as at 31 December 2008 and 2007 comprise:

	31 December 2008	31 December 2007
Deductible temporary differences:		
Property, equipment and intangible assets	121,172	50,692
Other assets	23,189	14,168
Other liabilities	15,287	16,541
Total deductible temporary differences	159,648	81,401
Taxable temporary differences:		
Accrued interest and commission income	(63,104)	(19,942)
Derivative financial instruments	(36,241)	(20,007)
Loans to customers	(33,634)	(32,786)
Due to banks	(6,276)	(749)
Total taxable temporary differences	(139,255)	(73,484)
Net deductible temporary differences	20,393	7,917
Deferred tax assets at the combined statutory rate 26.28%	5,359	2,081
Less deferred tax assets not recognized	(5,359)	(2,081)
Net deferred tax asset	-	-

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

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income taxes	102,262	77,646
Tax at the statutory tax rate (26.28%)	26,874	20,405
Tax effect of permanent differences	15,214	9,325
Effect of change in deferred tax assets not recognized	3,278	(4,259)
Income taxes expense	45,366	25,471

Deferred tax assets not recognized	Year ended 31 December 2008	Year ended 31 December 2007
At beginning of the period	2,081	6,340
Increase/(decrease) in deferred tax assets not recognized	3,278	(4,259)
At end of the period	5,359	2,081

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

Cash and balances with the National Bank of the Republic of Belarus comprise:

	31 December 2008	31 December 2007
Balances with the National Bank of the Republic of Belarus	253,710	191,596
Cash	238,760	170,966
Total cash and balances with the National Bank of the Republic of Belarus	492,470	362,562

The balances with the National Bank as at 31 December 2008 and 2007 included minimum reserve deposit amounted to BYR 177,856 million and BYR 82,933 million, respectively. The Bank is required to maintain the minimum reserve deposit with the National Bank at all times.

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

	31 December 2008	31 December 2007
Cash and balances with the National Bank	492,470	362,562
Due from banks in OECD countries with original maturities less than 90 days	76,981	20,634
Total cash and cash equivalents	569,451	383,196
Less minimum reserve deposit with the National Bank	(177,856)	(82,933)
Total cash and cash equivalents	391,595	300,263

12. DUE FROM BANKS

Due from banks comprise:

	31 December 2008	31 December 2007
Correspondent accounts and advances to banks	155,546	44,899
Loans and term deposits from banks	14,555	24,995
	170,101	69,894
Less allowance for impairment losses	-	(4)
Total due from banks	170,101	69,890

Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

As at 31 December 2008 and 2007 correspondent accounts and advances to banks included fixed amounts of BYR 53,147 million and BYR 1,870 million respectively placed as guarantee deposits on letters of credit, operations with plastic cards and settlements with international payment systems.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments as at 31 December 2008 comprised the following:

Foreign currency purchase contracts (forwards)	Nominal amount (in units of currency to be purchased)	Fair value	
		Asset	Liability
USD/BYR	USD 242,000,000	18,185	(560)
EUR/BYR	EUR 60,000,000	11,481	(9)
RUR/USD	RUR 89,250,000	245	-
RUR/BYR	RUB 50,000,000	-	(75)
Total derivative financial instruments		29,911	(644)

Derivative financial instruments as at 31 December 2007 comprised the following:

Foreign currency contracts (forwards)	Nominal amount (in units of currency to be purchased)	Fair value	
		Asset	Liability
EUR/BYR	EUR 86,860,000	18,737	-
USD/BYR	USD 110,000,000	1,996	(12)
EUR/USD	EUR 2,000,000	57	-
RUR/USD	RUB 122,618,000	-	(11)
Total derivative financial instruments		20,790	(23)

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2008	31 December 2007
Originated loans	12,733,839	6,887,219
Net investment in finance lease	54,416	44,128
	12,788,255	6,931,347
Less allowance for impairment losses	(237,618)	(166,572)
Total loans to customers	12,550,637	6,764,775

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

Loans, grouped by the type of collateral and by sector are presented as follows:

	31 December 2008	31 December 2007
Loans collateralized by property and goods in turnover	4,162,787	2,292,602
Loans collateralized by lines over property and receivables	2,934,219	2,285,811
Loans collateralized by guarantees of the Government and local authorities	2,896,978	1,447,960
Loans collateralized by real estate	2,467,360	542,985
Loans collateralized by cash	1,184	60,332
Loans collateralized by other types of collateral	67,536	120,663
Unsecured loans	258,191	180,994
	12,788,255	6,931,347
Less allowance for impairment losses	(237,618)	(166,572)
Total loans to customers	12,550,637	6,764,775

	31 December 2008	31 December 2007
Analysis by sector:		
Agriculture	6,979,092	3,854,520
Manufacturing	3,468,292	1,802,391
Individuals	634,810	300,454
Trade	565,972	359,576
Construction	292,082	150,161
Government bodies	122,650	85,287
Other	725,357	378,958
	12,788,255	6,931,347
Less allowance for impairment losses	(237,618)	(166,572)
Total loans to customers	12,550,637	6,764,775

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

As at 31 December 2008 and 2007 loans with the carrying amount before provision for impairment losses amounted to BYR 135,246 million and BYR 32,935 million, respectively, were pledged to secure liabilities on debt securities issued (Note 21).

Loans to individuals comprise the following products:

	31 December 2008	31 December 2007
Consumer loans	539,027	253,514
Mortgage loans	95,783	46,940
	634,810	300,454
Less allowance for impairment losses	(6,348)	(2,809)
Total loans to individuals	628,462	297,645

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

	31 December 2008	31 December 2007
Not later than one year	27,507	18,454
From one year to five years	44,506	37,332
Over five years	-	442
Minimum lease payments	72,013	56,228
Less: unearned finance income	(17,597)	(12,100)
Net investment in finance lease	54,416	44,128
Current portion	19,271	12,996
Long-term portion	35,145	31,132
Net investment in finance lease	54,416	44,128

Participation in the Government lending programs

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

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

As at 31 December 2008 the Group had contractual commitments to disburse loans under milk farms construction program in the nominal amount of BYR 568,787 million. These commitments were recognized as financial liabilities at approximated fair value of BYR 163,327 million.

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

	Interest rate paid by the borrower	Original maturity, years	Nominal amount		Amortized cost	
			31 December 2008	31 December 2007	31 December 2008	31 December 2007
Housing loans - non-compensated	3%	40	1,312,342	1,275,446	1,312,342	1,275,446
Housing loans - compensated	3%	40	2,060,810	1,151,001	2,060,810	1,151,001
Machinery loans - non-compensated	2%	5-8	116,222	126,561	92,708	89,944
Machinery loans - compensated	2%	5-8	655,554	156,630	575,079	156,630
Milk farms construction - compensated	0%	Up to 12	220,246	-	158,503	-
Current assets financing - compensated	3.25%	2-5	1,064,159	-	1,013,095	-
Other loans – non-compensated	0-11%	3-10	97,955	131,544	89,036	94,203
Other loans – compensated	0-11%	3-10	988	806,421	983	778,600
Total loans under Government programs			5,528,276	3,647,603	5,302,556	3,545,824

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

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

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

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

In the course of 1999-2003 years upon the decisions of the President and the Government of the Republic of Belarus, debts to the Government incurred under the programs have been periodically capitalized and treated as contributions by the State to the share capital of the Bank. The capitalizations were made based on respective resolutions of the Government of the Republic of Belarus.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank initially measures loans originated at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using an estimate of a market interest rate for short-term corporate loans at the date of relevant instrument's inception. Where the resources for financing of these programs were borrowed by the Bank, the date of inception of the financial instrument was the date of capitalization of the respective borrowings into share capital, as the Bank was not exposed to any credit risk in respect of loans granted before the capitalization date. Share capital contributions made by means of the capitalization of the funds received by the Bank in 1999-2003 years under these programs were recognized at the approximate fair value of the respective loans as of the dates of capitalization.

15. INVESTMENTS IN SECURITIES AVAILABLE FOR SALE

Investments in securities available for sale comprise:

	31 December 2008	31 December 2007
Debt securities available for sale:		
Long-term Government bonds	1,363,279	313,189
Short-term Government bonds	20,620	66,184
Short-term National Bank bonds	-	160,088
	1,383,899	539,461
Corporate shares available for sale	786	673
Total investments in securities available for sale	1,384,685	540,134

Short-term Government bonds – BYR denominated Government securities that are issued at discount to face value by the Ministry of Finance of the Republic of Belarus with maturities within one year.

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

Short-term National Bank bonds - BYR denominated securities that are issued at discount to face value by the National Bank with maturities within one year.

As at 31 December 2008 and 2007 included in securities available for sale were long-term Government bonds in the amount of BYR 58,094 million and BYR 23,392 million, respectively, which were pledged as collateral for debt securities issued (Note 21).

As at 31 December 2008 short-term Government bonds and long-term Government bonds were pledged as collateral against loans received under agreements to repurchase with Belarusian banks at fair value amounted to BYR 12,348 million and BYR 47,660 million, respectively (Note 19). As at 31 December 2008 long-term Government bonds were pledged as collateral against loans received under agreements to repurchase with the National Bank at fair value amounted to BYR 25,925 million (Note 18).

As at 31 December 2007 short-term Government bonds at fair value of BYR 32,452 million were pledged as collateral for loans under repurchase agreements issued by Belarusian banks (Note 19).

16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

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

	Buildings	Computer equipment	Vehicles	Furniture, other equipment, and intangible assets	Construc-tion in progress	Total
At historical cost restated for inflation						
31 December 2006	148,068	38,929	16,083	51,551	10,234	264,865
Additions	11,682	13,961	5,171	27,629	20,898	79,341
Putting into operation and transfers	5,411	33	-	830	(6,274)	-
Disposals	(356)	(2,716)	(756)	(1,718)	(1,020)	(6,566)
31 December 2007	164,805	50,207	20,498	78,292	23,838	337,640
Additions	27,735	14,301	3,216	24,777	65,179	135,208
Putting into operation and transfers	19,636	(883)	-	4,026	(22,779)	-
Disposals	(1,678)	(17,885)	(6,577)	(11,023)	(610)	(37,773)
31 December 2008	210,498	45,740	17,137	96,072	65,628	435,075
Accumulated depreciation						
31 December 2006	13,261	28,706	12,084	20,343	-	74,394
Charge for the year	2,308	4,675	1,383	6,435	-	14,801
Disposals	(160)	(2,700)	(740)	(1,103)	-	(4,703)
31 December 2007	15,409	30,681	12,727	25,675	-	84,492
Charge for the year	3,319	6,222	1,642	8,578	-	19,761
Disposals	(1,463)	(17,844)	(6,460)	(7,273)	-	(33,040)
31 December 2008	17,265	19,059	7,909	26,980	-	71,213
Net book value						
31 December 2008	193,233	26,681	9,228	69,092	65,628	363,862
31 December 2007	149,396	19,526	7,771	52,617	23,838	253,148

A part of depreciation charge for the years ended 31 December 2008 and 2007 in the amount of BYR 1,172 million and BYR 857 million, respectively, is included in carrying amount of inventory and work in progress from agricultural activities.

17. OTHER ASSETS

Other assets comprise:

	31 December 2008	31 December 2007
Other financial assets:		
Settlements with Belarusian stock exchange on foreign currency transactions	22,275	-
Accounts receivable on non-bank activity	2,956	2,646
Accrued fees and commissions receivable	1,868	1,194
Other accounts receivable in bank activity	782	408
Less allowance for impairment losses	-	(565)
Total other financial assets	27,881	3,683
Other non-financial assets:		
Assets for transfer to finance lease	49,276	-
Inventory and work in progress in agricultural activities	29,744	10,991
Tax settlements, other than income taxes	26,314	11,732
Prepayments for property, equipment and intangible assets	17,372	10,658
Other prepayments	31,587	4,990
Other non-financial assets	1,939	885
Total other assets	184,113	42,939

Movements in allowances for impairment losses on other assets for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

As at 31 December 2008 and 2007 tax settlements, other than income taxes mainly included input value added tax balances relating to lease operations of the Group and inventory purchases of the subsidiary PUE “Ozeritskiy-Agro”.

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

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

	31 December 2008	31 December 2007
Long-term loans	907,700	-
Short-term loans	79,632	551,561
Loans under agreements to repurchase	25,722	-
Total due to National Bank	1,013,054	551,561

As at 31 December 2008 loans under agreements to repurchase were represented by short-term loans with maturity less than 1 month which were collateralized by long-term Government bonds with fair value amounted to BYR 25,925 million (Note 15).

19. DUE TO BANKS

Due to banks comprise:

	31 December 2008	31 December 2007
Loans from other banks	1,598,234	1,034,191
Syndicated loans from groups of banks	207,615	198,226
Loans under repurchase agreements	59,470	34,200
Correspondent accounts of other banks	4,761	12,025
Total due to banks	1,870,080	1,278,642

As at 31 December 2008 and 2007 the balances due to banks in the amounts of BYR 436,056 million (23% of total balances due to banks) and BYR 244,493 million (19% of total balances due to banks), respectively, were due to 1 bank, which represented significant concentration.

As at 31 December 2008 and 2007 loans under repurchase agreements are represented by short-term loans granted by Belarusian banks with maturity of up to 30 days which are collateralized by short-term Government bonds at fair value of BYR 60,008 million and BYR 32,452 million, respectively (Note 15).

As at 31 December 2008 included in balances due to banks is a syndicated loan facility from the group of banks for the principle amount of USD 55 million. The loan initially matures on 1 September 2009 and bears interest rate of Libor + 3% per annum + borrower's margin. Carrying amount of BYR 119,074 million is adjusted for amortization of commissions.

As at 31 December 2008 included in balances due to banks is a syndicated loan facility from the group of banks for the principle amount of USD 40 million. The loan matures on 17 February 2009 and bears interest rate of Libor + 3.1% per annum + borrower's margin. Carrying amount of BYR 88,541 million is adjusted for amortization of commissions.

As at 31 December 2007 included in balances due to banks is a syndicated loan facility from JSC Bank VTB (Russia) and VTB Bank (France) SA for the principle amount of RUB 1,000 million. The loan matured on 26 June 2008 and bore interest of 9.7% per annum.

As at 31 December 2007 included in balances due to banks is a syndicated loan facility from a group of European and Russian banks and non-bank investment organizations for the principle amount of EUR 30 million. The loan matured on 21 August 2008 and bore interest of Libor + 3.45% per annum.

20. CUSTOMERS ACCOUNTS

Customer accounts comprise:

	31 December 2008	31 December 2007
Time deposits	6,779,199	3,349,848
Current accounts and deposits repayable on demand	969,252	611,204
Total customer accounts	7,748,451	3,961,052

During the year ended 31 December 2008 the Group received BYR denominated deposits from the Ministry of Finance of the Republic of Belarus at below market rates. Funds received were used for issuing of loans to customers under Government programs (Note 14). As at 31 December 2008 nominal amount and amortized cost of such deposits was BYR 1,808,221 million and BYR 1,650,414 million, respectively. Maturities of deposits range from 2011 to 2021.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank initially measures deposits received at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using refinancing rate of the National Bank as of the date of relevant instrument's inception. Initial recognition adjustment was recognized directly in equity as contribution of the Government and amounted to BYR 194,484 million.

As at 31 December 2008 and 2007 customer accounts amounting to BYR 64,435 million and BYR 9,769 million, respectively, were held as security against letters of credit issued by the Group.

As at 31 December 2008 and 2007 customer accounts in the amounts of BYR 4,686,423 million (60% of total customer accounts) and BYR 1,957,822 million (49% of total customer accounts), respectively, were due to 2 customers (2 state bodies) and 3 customers (2 state bodies and 1 state-owned company), which represented significant concentration.

Analysis by sector:	**31 December 2008**	**31 December 2007**
Government bodies	4,968,018	1,838,293
Individuals	1,451,251	1,142,903
Manufacturing	380,120	345,913
Agriculture	309,120	166,415
Construction	219,663	148,643
Trade	170,825	73,280
Insurance and finance	65,181	75,570
Transport	9,305	6,993
Other	174,968	163,042
Total customer accounts	7,748,451	3,961,052

21. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2008	**31 December 2007**
Interest bearing bonds	178,083	33,294
Bonds issued with a discount	11,505	7,155
Promissory notes	78	116
Total debt securities issued	189,666	40,565

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

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

As at 31 December 2008 all interest bearing bonds as well as all bonds issued with a discount rate were secured with long-term housing loans provided to the Banks customers with the carrying amount of BYR 135,246 million (Note 14) and long-term Government bonds, which are owned by the Bank in the carrying amount of BYR 58,094 million (Note 15).

As at 31 December 2007 all interest bearing bonds as well as all bonds issued with a discount rate were secured with long-term housing loans provided to the Banks customers with the carrying amount of BYR 32,935 million (Note 14) and long-term Government bonds, which are owned by the Bank in the carrying amount of BYR 23,392 million (Note 15).

22. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008	31 December 2007
Other financial liabilities:		
Trade payables on non-banking activities	14,856	20,086
Deferred consideration for subsidiary purchase	-	1,216
Other creditors	13,892	6,741
Total other financial liabilities	28,748	28,043
Other non-financial liabilities:		
Advances and prepayments received	24,623	748
Provision for guarantees and other commitments	14,274	9,411
Accruals for unused vacation	4,721	5,690
Taxes payable, other than income taxes	2,668	7,863
Other	659	65
Total other liabilities	75,693	51,820

Movements in provisions for guarantees and other commitments for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

23. SHARE CAPITAL

As at 31 December 2008 and 2007 the authorized, issued and fully paid share capital comprised 1,914,310,642 and 939,310,642 ordinary shares with a par value of BYR 2,000 each, respectively, and 6,881 preference shares with a par value of BYR 2,000 each (all at statutory historical cost before fair value adjustment and restatement for hyperinflation). All ordinary shares are ranked equally and carry one vote. Preference shares are not redeemable and non-voting except for participation in limited range of decisions stated in the Bank’s charter.

In December 2008 the Bank issued 975,000,000 ordinary shares for, which were paid from Government of the Republic of Belarus funds in the amount of BYR 950,000 million, from the funds of RUE “Belgosstrakh” in the amount of BYR 650,000 million and from the funds of RUE “Belarusian National Reinsurance Company in the amount of BYR 350,000 million.

In November 2007 the Bank received BYR 300,000 million at par value as a contribution to share capital from the Government including BYR 150,000 million in cash and BYR 150,000 million in long-term Government bonds. Under the terms of the contributions made in November 2007 and previously in October 2006 imposed by Decrees of the President of the Republic of Belarus the bonds may not be sold on the secondary market and are to be purchased by the National Bank. Proceeds on sale of bonds, as well as cash part of the contribution, may only be used for granting housing loans at a below market interest rates (Note 14). The Bank initially recognized increase in share capital in the amount of fair value of the consideration received, which was equal to nominal and fair value of the Government bonds received plus amount of cash received. These bonds were classified by the Group as loans and receivables based on restrictions on sale of these instruments. As at 31 December 2007 all bonds received in 2006 and 2007 have been completely disposed off and proceeds have been used for housing loans issuance.

Total contribution of equity from the Government of the Republic of Belarus related to receipt of deposits at a below market interest rate (Note 20) for the year ended 31 December 2008 amounted to BYR 194,184 million.

Total distribution of equity to the Government of the Republic of Belarus related to issuing of loans at below market interest rate (Note 14) for the years ended 31 December 2008 and 2007 amounted to BYR 250,375 million and BYR 11,961 million, respectively. Total distribution of equity to the Government of the Republic of Belarus related to commitments to issue loans at below market interest rates (Note 14) for the year ended 31 December 2008 amounted to BYR 163,327 million.

Total contributions to equity from the Government of the Republic of Belarus in the form of compensation on loans issued under the Government lending programs (Note 14) for the years ended 31 December 2008 and 2007 amounted to BYR 159,773 million and BYR 109,500 million, respectively.

The dividends declared and paid in 2008 for 2007 amounted to BYR 5.47 per ordinary share and BYR 300 per preference share. Total amount of dividends was BYR 5,140 million.

The dividends declared and paid in 2007 for 2006 amounted to BYR 4.74 per ordinary share and BYR 300 per preference share. Total amount of dividends was BYR 3,743 million.

In the course of year ended 31 December 2008 the Bank repurchased treasury shares amounted to BYR 2 million.

As at 31 December 2008 and 2007 part of retained earnings of the Bank as per the statutory financial statements, representing the reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities, was not distributable to shareholders. This fund was created in accordance with the Bank's charter in amount of BYR 41,862 million (unaudited) and BYR 30,726 million (unaudited), respectively.

24. COMMITMENTS AND CONTINGENCIES

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

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

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

As at 31 December 2008 and 2007 provision on guarantees and other commitments amounted to BYR 14,274 million and BYR 9,411 million, respectively (Note 22).

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

	31 December 2008	31 December 2007
Guarantees issued and similar commitments	58,785	47,735
Letters of credit issued	393,673	130,008
Commitments on loans and unused credit lines	1,158,167	185,635
Total contingent liabilities and credit commitments	1,610,625	363,378

Commitments on loans and unused credit lines include commitments to issue loans below market rates in the nominal amount of BYR 568,787 million. These commitments were recognized as financial liabilities at approximated fair value of BYR 163,327 million (Note 14).

Operating lease commitments – The Group had no material commitments on operating leases outstanding as at 31 December 2008 and 2007.

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

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

25. 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 Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group it gives then significant influence over the Group; and that have joint control over the Group;
(b) Associates – enterprises on which the Group has significant influence and which are neither a subsidiary nor a joint venture of the Group;
(c) Joint ventures in which the Group is a venturer;
(d) Members of key management personnel of the Group 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 Group, or of any entity that is a related party of the Group.

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

The Group had the following transactions outstanding as of 31 December 2008 and 2007 with related parties:

	31 December 2008		31 December 2007	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Due from the National Bank of the Republic of Belarus	**253,710**	**253,710**	**191,596**	**191,596**
Due from banks	**2,234**	**170,101**	**3,635**	**69,890**
- state entities (under common control of the State)	2,234		3,635	
Derivative financial instruments (assets)	**29,666**	**29,911**	**20,342**	**20,790**
- Government bodies	29,666		20,342	
Loans to customers, gross	**7,184,235**	**12,788,255**	**3,440,814**	**6,931,347**
- state entities (under common control of the State)	7,059,260		3,354,281	
- Government bodies	122,650		85,287	
- key management personnel	2,325		1,246	
Allowance for impairment losses on loans to customers	**(150,543)**	**(237,618)**	**(110,645)**	**(166,572)**
- state entities (under common control of the State)	(147,988)		(109,458)	
- Government bodies	(2,555)		(1,187)	
Investments in securities available for sale	**1,384,628**	**1,384,685**	**540, 077**	**540,134**
- Government bodies	1,384,628		540,077	
Current income taxes asset	**6,540**	**6,540**	**3,934**	**3,934**
Other assets	**48,589**	**184,113**	**11,732**	**42,939**
- Government bodies	26,314		11,732	
- state entities (under common control of the State)	22,275		-	
Due to the National Bank of the Republic of Belarus	**1,013,054**	**1,013,054**	**551,561**	**551,561**
Due to banks	**664,733**	**1,870,080**	**384,451**	**1,278,642**
- state entities (under common control of the State)	664,733		384,451	
Derivative financial instruments (liabilities)	**569**	**644**	**23**	**23**
- Government bodies	569		23	
Customer accounts	**5,695,889**	**7,748,451**	**2,073,253**	**3,961,052**
- Government bodies	4,968,018		1,838,293	
- state entities (under common control of the State)	726,128		233,629	
- key management personnel	1,743		1,331	
Commitments to provide loans at below market rates	**62,998**	**163,327**	**-**	**-**
- state entities (under common control of the State)	62,998		-	
Other liabilities	**2,668**	**75,693**	**9,079**	**51,820**
- Government bodies	2,668		9,079	
Current income taxes liability	**7,427**	**7,427**	**2,330**	**2,330**
Guarantees issued and similar commitments	**39,825**	**58,785**	**37,114**	**47,735**
- state entities (under common control of the State)	39,825		37,114	
Letters of credit issued	**314,311**	**393,673**	**70,725**	**130,008**
- state entities (under common control of the State)	306,507		70,725	
- Government bodies	7,804		-	
Commitments on loans and unused credit lines	**495,664**	**1,158,167**	**61,073**	**185,635**
- state entities (under common control of the State)	485,128		61,073	
- Government bodies	9,970		-	
- key management personnel	566		-	
Provision for guarantees and other commitments	**6,368**	**14,274**	**4,260**	**9,411**
- state entities (under common control of the State)	6,368		4,260	

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

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	**498,275**	**977,940**	**263,468**	**584,465**
- state entities (under common control of the State) - customers	451,279		202,223	
- Government bodies	46,490		60,983	
- state entities (under common control of the State) - banks	389		207	
- key management personnel	117		55	
Fee and commission income	**77,914**	**205,825**	**50,149**	**147,790**
- state entities (under common control of the State)	77,730		50,105	
- Government bodies	183		28	
- key management personnel	1		16	
Interest expenses	**504,935**	**763,249**	**216,295**	**413,171**
- Government bodies	332,213		135,849	
- National Bank (under common control of the State)	88,785		53,600	
- state entities (under common control of the State) - banks	53,957		21,260	
- state entities (under common control of the State) - customers	29,899		5,541	
- key management personnel	81		45	
Provision for impairment losses on interest bearing assets	**39,898**	**71,046**	**29,095**	**32,760**
- state entities (under common control of the State)	38,530		28,470	
- Government bodies	1,368		625	
Other provisions	**2,108**	**4,298**	**2,358**	**5,565**
- state entities (under common control of the State)	2,108		2,358	
Operating expenses	**5,456**	**314,203**	**4,808**	**251,351**
- key management personnel (remuneration)	5,456		4,808	
Income taxes expense	**45,366**	**45,366**	**25,471**	**25,471**

During the years ended 31 December 2008 and 2007 key management personnel remuneration included in operating expenses caption in the table above comprised short-term employee benefits.

Proceeds on disposal of long-term Government bonds classified as loans and receivables (Note 23) are included in the consolidated statement of changes in equity for the year ended 31 December 2007 in the amount of BYR 469,199 million and represent transactions with related parties – the National Bank.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

The data stated below relating to calculated fair value of financial instruments complies with provisions of IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

	31 December 2008		**31 December 2007**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS:				
Cash and balances with the National Bank of the Republic of Belarus	314,614	314,614	279,629	279,629
Due from banks	170,101	170,101	69,890	69,890
Derivative financial instruments	29,911	29,911	20,790	20,790
Investments in securities available for sale	1,383,899	1,383,899	539,461	539,461
FINANCIAL LIABILITIES:				
Due to the National Bank of the Republic of Belarus	1,013,054	1,013,054	551,561	551,561
Due to banks	1,870,080	1,870,080	1,278,642	1,278,642
Derivative financial instruments	644	644	23	23
Customer accounts	7,748,451	7,748,451	3,961,052	3,961,052
Debt securities issued	189,666	189,666	40,565	40,565

The fair value of loans to customers and investments in equity securities, as well as customer accounts with fixed interest rate can not be measured reliably as it is not possible to obtain market information or apply any other valuation techniques on such financial instruments.

27. SUBSEQUENT EVENTS

Dividends in the amount of BYR 6,587 million for the year 2008 were declared and approved in March 2009, comprising BYR 6,585 million for ordinary shares (BYR 3.44 per share) and BYR 2 million for preference shares (BYR 300 per share).

28. CAPITAL MANAGEMENT AND REGULATORY MATTERS

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

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

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

As at 31 December 2008 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 4,116,196 million with ratios of 31.8%.

As at 31 December 2007 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 2,173,909 million with ratios of 30.9%.

29. RISK MANAGEMENT POLICIES

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

The Group manages the following risks:

Credit risk

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

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

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

Decisions on possibility and terms of lending operations and further monitoring are performed using borrower credit ratings based on evaluation of credit history and financial ratios.

To minimize credit risk the Credit Committees at different levels of the Group's structure set limits on the amount of risk accepted in relation to one borrower, or groups of borrowers within their authority. Limits on the level of credit risk by a borrower are regularly reviewed and approved by the Board. The exposure to any one borrower is also restricted by limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily. Quarterly forecast balance sheet and monthly payments calendar are used to set and adjust branch limits of credit exposures for industry sectors and types of loans.

In respect of most loans the Group obtains collateral and guarantees of companies or individuals. Required amount and nature of collateral is determined using the borrower credit rating. Credit risk and collateral are monitored on a regular basis.

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

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

	31 December 2008 Maximum exposure	**31 December 2007 Maximum exposure**
Balances with the National Bank	75,854	108,663
Due from banks	170,101	69,890
Loans to customers	12,550,637	6,764,775
Investments available for sale	1,384,685	540,134
Other financial assets	27,881	3,683
Guarantees issued and similar commitments	58,785	47,735
Letters of credit not collateralized by customers funds	329,238	110,688
Commitments on loans and unused credit lines	1,158,167	185,635

Financial assets are graded according to the current credit rating of the issuer, assigned by an internationally regarded agency Fitch Ratings Ltd and Standard & Poor's as of the respective reporting date. Balances with the National Bank and state securities are graded according to the independent rating of the Republic of Belarus.

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

	AA	A	BBB	Below BBB	Not rated	31 December 2008 Total
Balances in the National Bank	-	-	-	75,854	-	75,854
Due from banks	73,308	40,639	20,840	11,734	23,580	170,101
Loans to customers	-	-	-	-	12,550,637	12,550,637
Investments in securities available for sale	-	-	-	1,384,235	450	1,384,685
Other financial assets	-	-	-	-	27,881	27,881

	AA	A	BBB	Below BBB	Not rated	31 December 2007 Total
Balances in the National Bank	-	-	-	108,663	-	108,663
Due from banks	793	19,606	22,585	4,034	22,872	69,890
Loans to customers	-	-	-	-	6,764,775	6,764,775
Investments in securities available for sale	-	-	-	539,801	333	540,134
Other financial assets	-	-	-	-	3,683	3,683

The following tables detail the carrying value of assets that are impaired:

	Financial assets not individually impaired		Financial assets individually impaired		31 December 2008
	not past due	past due	not past due	past due	Total
Due from the National Bank of the Republic of Belarus	75,854	-	-	-	75,854
Due from banks	170,101	-	-	-	170,101
Derivative financial instruments	29,911	-	-	-	29,911
Loans to customers	11,607,043	-	923,834	19,760	12,550,637
Debt securities available for sale	1,383,899	-	-	-	1,383,899
Shares available for sale	786	-	-	-	786
Other financial assets	27,881	-	-	-	27,881

	Financial assets not individually impaired		Financial assets individually impaired		31 December 2007
	not past due	past due	not past due	past due	Total
Due from the National Bank of the Republic of Belarus	108,663	-	-	-	108,663
Due from banks	69,890	-	-	-	69,890
Derivative financial instruments	20,790	-	-	-	20,790
Loans to customers	6,300,350	-	439,580	24,845	6,764,775
Debt securities available for sale	539,461	-	-	-	539,461
Shares available for sale	673	-	-	-	673
Other financial assets	3,483	-	-	200	3,683

Geographical concentration

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

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2008 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	314,614	-	-	-	314,614
Due from banks	23,197	22,224	117,241	7,439	170,101
Derivative financial instruments	29,666	245	-	-	29,911
Loans to customers	12,550,637	-	-	-	12,550,637
Investments in securities available for sale	1,384,685	-	-	-	1,384,685
Other financial assets	27,881	-	-	-	27,881
TOTAL FINANCIAL ASSETS	14,330,680	22,469	117,241	7,439	14,477,829
FINANCIAL LIABILITIES:					
Due to the National Bank of the Republic of Belarus	1,013,054	-	-	-	1,013,054
Due to banks	889,150	159,696	805,834	15,400	1,870,080
Derivative financial instruments	644	-	-	-	644
Customer accounts	7,735,629	240	12,582	-	7,748,451
Debt securities issued	189,666	-	-	-	189,666
Other financial liabilities	28,748	-	-	-	28,748
TOTAL FINANCIAL LIABILITIES	9,856,891	159,936	818,416	15,400	10,850,643
OPEN POSITION	4,473,789	(137,467)	(701,175)	(7,961)	

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2007 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	279,629	-	-	-	279,629
Due from banks	23,257	24,863	21,721	49	69,890
Derivative financial instruments	20,733	-	57	-	20,790
Loans to customers	6,764,775	-	-	-	6,764,775
Investments in securities available for sale	540,134	-	-	-	540,134
Other financial assets	3,683	-	-	-	3,683
TOTAL FINANCIAL ASSETS	7,632,211	24,863	21,778	49	7,678,901
FINANCIAL LIABILITIES:					
Due to the National Bank of the Republic of Belarus	551,561	-	-	-	551,561
Due to banks	494,760	123,436	652,361	8,085	1,278,642
Derivative financial instruments	12	11	-	-	23
Customer accounts	3,959,113	1,643	275	21	3,961,052
Debt securities issued	40,565	-	-	-	40,565
Other financial liabilities	28,043	-	-	-	28,043
TOTAL FINANCIAL LIABILITIES	5,074,054	125,090	652,636	8,106	5,859,886
OPEN POSITION	2,558,157	(100,227)	(630,858)	(8,057)	

Liquidity risk

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

To minimize liquidity risk, Treasury, Department of Strategic Development, Finance and economic Department, Lending Department, Departments of Securities, Foreign Trade Finance, Corporate Business, International Settlements, Currency Regulation and Control take actions aimed at planning (assessment of liquidity position, forecast of ratios), analysis (determination of negative factors and trends, development of action plans) and adjusting of liquidity position depending on current and forecasted liquidity position of the Group.

The liquidity risk policy is authorized by the Board of Directors. Decisions on liquidity operational monitoring are made by Finance committee, Credit committee, Chairman of the Board, Deputy Chairman of the Board supervising Treasury, Head of Treasury and deputies according to their authority, determined by the local legislative documents and job descriptions.

The Group manages liquidity risk through exercising stress-testing performed depending on current and forecasted liquidity position (liquidity surplus or gap). Maintenance of liquidity position is achieved through daily forecasts and measures taken by Treasury adjusted for optimum financial result from alternative transactions. Considering "profitability-liquidity" alternative, preference is given to liquidity position. The Group also controls compliance with liquidity requirements set by the National Bank.

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

	Weighted average interest rate	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**31 December 2008 Total**
FINANCIAL LIABILITIES:							
Due to the National Bank of the Republic of Belarus	5.83%	79,093	6	10,520	-	-	89,619
Due to banks	14.72%	327,989	37,178	148,843	-	-	514,010
Customer accounts	12.70%	129,473	28,927	984,522	545,422	32,102	1,720,446
Debt securities issued	9.52%	1,079	16,342	5,874	29,473	-	52,768
Total interest bearing liabilities at fixed rates		537,634	82,453	1,149,759	574,895	32,102	2,376,843
Due to the National Bank of the Republic of Belarus	12.00%	9,251	17,607	98,520	1,341,307	-	1,466,685
Due to banks	8.58%	36,918	149,905	323,914	1,260,872	135,590	1,907,199
Customer accounts	8.99%	1,227,935	369,978	1,303,501	4,376,462	195,841	7,473,717
Debt securities issued	13.49%	3,921	12,978	56,662	99,776	-	173,337
Total interest bearing liabilities at variable rates		1,278,025	550,468	1,782,597	7,078,417	331,431	11,020,938
Total interest bearing liabilities		1,815,659	632,921	2,932,356	7,653,312	363,533	13,397,781
Due to banks		4,447	-	-	-	-	4,447
Customer accounts		125,306	-	-	-	-	125,306
Other financial liabilities		24,616	334	1,445	2,298	55	28,748
Financial guarantee contracts and letters of credit		49,736	32,727	265,317	25,142	-	372,922
Commitments on loans and unused credit lines		1,033,882	22,452	94,122	5,849	1,862	1,158,167
TOTAL FINANCIAL LIABILITIES		3,053,646	688,434	3,293,240	7,686,601	365,450	15,087,371

	Weighted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2007 Total
FINANCIAL LIABILITIES:							
Due to the National Bank of the Republic of Belarus	0.86%	48	63,077	1,904	-	-	65,029
Due to banks	7.14%	142,445	25,448	101,223	-	-	269,116
Customer accounts	7.99%	379,084	245,631	568,598	697,964	6,505	1,897,782
Debt securities issued	10.81%	702	10,624	13,865	24,754	-	49,945
Total interest bearing liabilities at fixed rates		522,279	344,780	685,590	722,718	6,505	2,281,872
Due to the National Bank of the Republic of Belarus	10.00%	4,055	8,110	519,171	-	-	531,336
Due to banks	8.04%	18,489	78,300	244,689	726,845	209,561	1,277,884
Customer accounts	9.12%	623,609	406,215	712,368	748,006	1,759	2,491,957
Total interest bearing liabilities at variable rates		646,153	492,625	1,476,228	1,474,851	211,320	4,301,177
Total interest bearing liabilities		1,168,432	837,405	2,161,818	2,197,569	217,825	6,583,049
Due to banks		990	-	-	-	-	990
Customer accounts		44,253	-	-	-	-	44,253
Other financial liabilities		26,425	216	384	996	22	28,043
Financial guarantee contracts and letters of credit		141,946	4,752	20,570	10,474	-	177,742
Commitments on loans and unused credit lines		148,249	4,963	21,483	10,940	-	185,635
TOTAL FINANCIAL LIABILITIES		1,530,295	847,336	2,204,225	2,219,979	217,847	7,019,712

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

	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:								
Due from banks	120,671	3,860	10,818	-	-	-	-	135,349
Loans to customers	721,531	1,196,775	3,065,047	3,546,001	4,001,523	19,760	-	12,550,637
Investments in securities available for sale	15,166	55,703	100,500	222,530	990,000	-	-	1,383,899
Total interest bearing assets	857,368	1,256,338	3,176,365	3,768,531	4,991,523	19,760	-	14,069,885
Cash and balances with the National Bank of the Republic of Belarus	314,614	-	-	-	-	-	-	314,614
Derivative financial instruments	245	-	23,694	5,972	-	-	-	29,911
Due from banks	34,752	-	-	-	-	-	-	34,752
Investments in securities available for sale	-	-	-	-	-	-	786	786
Other financial assets	27,622	46	-	213	-	-	-	27,881
TOTAL FINANCIAL ASSETS	1,234,601	1,256,384	3,200,059	3,774,716	4,991,523	19,760	786	14,477,829
FINANCIAL LIABILITIES:								
Due to the National Bank of the Republic of Belarus	78,945	-	26,409	907,700	-	-	-	1,013,054
Due to banks	271,384	171,961	384,947	935,823	101,518	-	-	1,865,633
Customer accounts	1,288,966	295,966	1,901,757	3,991,201	145,255	-	-	7,623,145
Debt securities issued	476	20,669	54,873	113,648	-	-	-	189,666
Total interest bearing liabilities	1,639,771	488,596	2,367,986	5,948,372	246,773	-	-	10,691,498
Due to banks	4,447	-	-	-	-	-	-	4,447
Derivative financial instruments	644	-	-	-	-	-	-	644
Customer accounts	125,306	-	-	-	-	-	-	125,306
Other financial liabilities	24,616	334	1,445	2,298	55	-	-	28,748
TOTAL FINANCIAL LIABILITIES	1,794,784	488,930	2,369,431	5,950,670	246,828	-	-	10,850,643
Liquidity gap	(560,183)	767,454	830,628	(2,175,954)	4,744,695			
Interest sensitivity gap	(782,403)	767,742	808,379	(2,179,841)	4,744,750			
Cumulative interest sensitivity gap	(782,403)	(14,661)	793,718	(1,386,123)	3,358,627			
Cumulative interest sensitivity gap as a percentage of total financial assets	-5%	0%	5%	-10%	23%			

	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 2007 Total
FINANCIAL ASSETS:								
Due from banks	6,961	4,300	13,657	-	-	-	-	24,918
Loans to customers	268,784	915,254	1,841,832	1,686,560	2,027,500	24,845	-	6,764,775
Investments in securities available for sale	179,904	21,776	35,538	222,243	80,000	-	-	539,461
Total interest bearing assets	455,649	941,330	1,891,027	1,908,803	2,107,500	24,845	-	7,329,154
Cash and balances with the National Bank of the Republic of Belarus	279,629	-	-	-	-	-	-	279,629
Derivative financial instruments	1,843	-	18,947	-	-	-	-	20,790
Due from banks	44,044	-	928	-	-	-	-	44,972
Investments in securities available for sale	-	-	-	-	-	-	673	673
Other financial assets	837	2,646	-	-	-	200	-	3,683
TOTAL FINANCIAL ASSETS	782,002	943,976	1,910,902	1,908,803	2,107,500	25,045	673	7,678,901
FINANCIAL LIABILITIES:								
Due to the National Bank of the Republic of Belarus	-	63,060	488,501	-	-	-	-	551,561
Due to banks	150,843	94,743	297,813	543,616	190,637	-	-	1,277,652
Customer accounts	1,045,245	640,988	1,190,466	1,033,744	6,356	-	-	3,916,799
Debt securities issued	258	10,198	12,390	17,719	-	-	-	40,565
Total interest bearing liabilities	1,196,346	808,989	1,989,170	1,595,079	196,993	-	-	5,786,577
Due to banks	990	-	-	-	-	-	-	990
Derivative financial instruments	23	-	-	-	-	-	-	23
Customer accounts	44,253	-	-	-	-	-	-	44,253
Other financial liabilities	26,425	216	384	996	22	-	-	28,043
TOTAL FINANCIAL LIABILITIES	1,268,037	809,205	1,989,554	1,596,075	197,015	-	-	5,859,886
Liquidity gap	(486,035)	134,771	(78,652)	312,728	1,910,485			
Interest sensitivity gap	(740,697)	132,341	(98,143)	313,724	1,910,507			
Cumulative interest sensitivity gap	(740,697)	(608,356)	(706,499)	(392,775)	1,517,732			
Cumulative interest sensitivity gap as a percentage of total financial assets	-10%	-8%	-9%	-5%	20%			

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

Currently, a considerable part of customer deposits are repayable on demand. However, these deposits are diversified by the number and type of customers.

Market risk

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

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

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

Interest rate risk

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

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

Most of the loan contracts and other financial assets and liabilities of the Group bear variable interest rate or contain clauses enabling the interest rate to be changed at the option of the lender.

To minimize interest risk the Group:

- utilizes centralized approach to setting interest rates on major types of placed and attracted resources;
- applies where necessary interest rates attachment to major financial market indicators (primarily to refinance rate of the National Bank);
- gives preference to placements and fund raising on terms that provide the Group with right to change interest rates in case of change in market situation;
- pursues policy aimed at balanced position of assets and liabilities by maturity;
- constantly monitors interest margin, assets and liabilities exposed to changes in interest rates;
- uses stress-testing.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable” applied to floating rate financial instruments and to fixed rate financial instruments carried at fair value. The level of these changes is determined by management. Additionally, the effect of reinvestment of fixed-rate instruments at new market rates as they mature is considered. The sensitivity analysis below represents the effect of 5% and 1% increase/reduction in interest rates existing at 31 December 2008 and 2007, respectively, on the profit before taxation of the Group assuming that the change took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

Impact on profit before tax:

	31 December 2008		31 December 2007	
	Interest rate +5%	Interest rate -5%	Interest rate +1%	Interest rate -1%
Financial Assets:				
Due from banks	4,120	(4,120)	435	(435)
Loans to customers	279,298	(279,298)	24,652	(24,652)
Investments in securities available for sale	60,946	(60,946)	2,371	(2,371)
Financial Liabilities:				
Due to the National Bank of the Republic of Belarus	(46,180)	46,180	(4,866)	4,866
Due to banks	(72,347)	72,347	(9,999)	9,999
Customer accounts	(315,861)	315,861	(21,498)	21,498
Net impact on profit before tax	(90,024)	90,024	(8,905)	8,905

Impact on equity:

	31 December 2008		31 December 2007	
	Interest rate +5%	Interest rate -5%	Interest rate 1%	Interest rate -1%
Financial Assets:				
Investments in securities available for sale	(3,243)	3,532	(1,669)	1,715
Net impact on equity	(93,267)	93,556	(10,574)	10,621

Currency risk

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

The Department of Currency Regulation and Control manages the currency risk by means of setting and controlling the limits of open currency position for regional branches and the Bank as a whole. Limits are set in compliance with regulatory requirements of the National Bank. Limits for open currency position are promptly adjusted in case of changes in currency exchange rates and other factors affecting the currency risk level.

To minimize risk of losses on foreign exchange transactions branches are assigned operating day sublimits of open currency position by type of currency. Maintenance of optimum open currency position within the set sublimit is achieved through re-distribution of foreign currency by means of balancing transactions of the Treasury of the Bank.

To control currency risk the Group uses value-at-risk calculations. The Department of Currency Regulation and Control performs stress-testing of currency risk that allows estimating potential losses for open currency position in extreme situations. Stress-testing is performed with account of current situation on the currency market and utilizes approved methodology.

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

	BYR	USD 1USD= BYR 2,200	EUR 1EUR= BYR 3,077.14	RUB 1RUB= BYR 76.89	Other currencies	31 December 2008 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	229,090	42,051	23,913	19,060	500	314,614
Due from banks	-	42,237	102,311	24,881	672	170,101
Derivative financial instruments	29,911	-	-	-	-	29,911
Loans to customers	10,943,281	704,995	847,355	49,613	5,393	12,550,637
Investments in securities available for sale	1,384,681	-	-	4	-	1,384,685
Other financial assets	27,417	410	51	3	-	27,881
TOTAL FINANCIAL ASSETS	12,614,380	789,693	973,630	93,561	6,565	14,477,829
FINANCIAL LIABILITIES:						
Due to the National Bank of the Republic of Belarus	1,013,054	-	-	-	-	1,013,054
Due to banks	830,891	381,484	639,549	12,666	5,490	1,870,080
Derivative financial instruments	644	-	-	-	-	644
Customer accounts	6,327,523	836,824	506,024	78,011	69	7,748,451
Debt securities issued	153,094	21,139	14,126	1,307	-	189,666
Other financial liabilities	23,530	1,795	942	2,479	2	28,748
TOTAL FINANCIAL LIABILITIES	8,348,736	1,241,242	1,160,641	94,463	5,561	10,850,643
OPEN BALANCE SHEET POSITION	4,265,644	(451,549)	(187,011)	(902)	1,004	

Derivative financial instruments

Fair value of the derivatives is included in the currency analysis presented above and the following table presents further analysis of currency risk for derivative financial instruments as at 31 December 2008:

	BYR	USD 1USD= BYR 2,200	EUR 1EUR= BYR 3,077.14	RUB 1RUB= BYR 76.89	Other currencies	31 December 2008 Total
Accounts receivable on forward contracts	-	532,400	184,628	10,707	-	727,735
Accounts payable on forward contracts	(729,408)	(6,600)	-	-	-	(736,008)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(729,408)	525,800	184,628	10,707	-	
TOTAL CURRENCY POSITION	3,536,236	74,251	(2,383)	9,805	1,004	

	BYR	USD 1USD= BYR 2,150	EUR 1EUR= BYR 3,166.73	RUB 1RUB= BYR 87.61	Other currencies	31 December 2007 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	224,454	29,960	14,237	10,494	484	279,629
Due from banks	-	29,242	12,858	27,644	146	69,890
Derivative financial instruments	20,790	-	-	-	-	20,790
Loans to customers	5,554,682	511,997	573,613	124,483	-	6,764,775
Investments in securities available for sale	540,134	-	-	-	-	540,134
Other financial assets	3,657	20	5	1	-	3,683
TOTAL FINANCIAL ASSETS	6,343,717	571,219	600,713	162,622	630	7,678,901
FINANCIAL LIABILITIES:						
Due to the National Bank of the Republic of Belarus	551,561	-	-	-	-	551,561
Due to banks	488,672	105,720	595,058	89,190	2	1,278,642
Derivative financial instruments	23	-	-	-	-	23
Customer accounts	2,862,473	712,828	307,141	78,561	49	3,961,052
Debt securities issued	25,269	10,258	5,038	-	-	40,565
Other financial liabilities	22,322	2,489	2,863	369	-	28,043
TOTAL FINANCIAL LIABILITIES	3,950,320	831,295	910,100	168,120	51	5,859,886
OPEN BALANCE SHEET POSITION	2,393,397	(260,076)	(309,387)	(5,498)	579	

Derivative financial instruments

Fair value of the derivatives is included in the currency analysis presented above and the following table presents further analysis of currency risk for derivative financial instruments as at 31 December 2007:

	BYR	USD 1USD= BYR 2,150	EUR 1EUR= BYR 3,166.73	RUB 1RUB= BYR 87.61	Other currencies	31 December 2007 Total
Accounts receivable on forward contracts	-	236,500	281,396	10,743	-	528,639
Accounts payable on forward contracts	(509,647)	(17,077)	-	-	-	(526,724)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(509,647)	219,423	281,396	10,743	-	
TOTAL CURRENCY POSITION	1,883,750	(40,653)	(27,991)	5,245	579	

Currency risk sensitivity

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

	31 December 2008		31 December 2007	
	BYR/USD +30%	**BYR/USD -10%**	**BYR/USD +1%**	**BYR/USD -1%**
Impact on profit before taxation	22,275	(7,425)	(407)	407
Impact on equity	22,275	(7,425)	(407)	407
	BYR/EUR +30%	**BYR/EUR -10%**	**BYR/EUR +10%**	**BYR/EUR -10%**
Impact on profit before taxation	(715)	238	(2,799)	2,799
Impact on equity	(715)	238	(2,799)	2,799
	BYR/RUB +30%	**BYR/RUB -10%**	**BYR/RUB +10%**	**BYR/RUB -10%**
Impact on profit before taxation	2,942	(981)	525	(525)
Impact on equity	2,942	(981)	525	(525)

Limitations of sensitivity analysis

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

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

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

30. VOLATILITY IN GLOBAL AND LOCAL MARKETS

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

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

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

The devaluation of the Belarusian Rouble resulted in net translation loss of BYR 130,544 million in respect of the balance sheet currency position of the Group existing at 31 December 2008, and profit from change in the fair value of derivative financial instruments amounted to BYR 141,915 million.

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

Government debt – On 26 January 2009 Standard & Poor's Ratings Services affirmed its previously issued sovereign credit rating of the Republic of Belarus – "B+" for foreign currency denominated 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 early 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 management of the Group made its best estimate on the recoverability and classification of recorded assets and completeness of recorded liabilities. However, the uncertainty described above still exists and the Group may continue to be affected by it.