OPEN JOINT STOCK COMPANY
“BELAGROPROMBANK”

Consolidated Financial Statements
For the year ended 31 December 2009

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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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 2009

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

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

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

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 2009 were authorized for issue on 15 April 2010 by the management of the Bank.

On behalf of the management:

Chairman	**Chief Accountant**
S.N. Roumas	M.A. Shapavalava
15 April 2010	15 April 2010

Deloitte.

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 (hereinafter – "the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the 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 Open Joint Stock Company “Belagroprombank” and its subsidiaries as at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

15 April 2010

Minsk

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

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	4, 25	2,019,617	977,940
Interest expense	4, 25	(1,534,236)	(763,249)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		485,381	214,691
Provision for impairment losses on interest bearing assets	5, 25	(198,469)	(71,046)
NET INTEREST INCOME		286,912	143,645
Net (loss)/gain on foreign exchange operations	6	(114,553)	92,753
Fee and commission income	7, 25	248,022	205,825
Fee and commission expense	7	(22,312)	(13,571)
Net gain/(loss) on derivative financial instruments		132,433	(26,651)
Net (loss)/gain on investments available for sale		(379)	768
Other provisions	5, 25	(3,843)	(4,298)
Other income	8, 25	38,866	17,994
NET NON-INTEREST INCOME		278,234	272,820
OPERATING INCOME		565,146	416,465
OPERATING EXPENSES	9, 25	(413,034)	(314,203)
PROFIT BEFORE INCOME TAXES		152,112	102,262
Income tax expense	10, 25	(137,277)	(45,366)
NET PROFIT		14,835	56,896
Attributable to:			
Shareholders of the Bank		17,533	56,960
Non-controlling interest		(2,698)	(64)

On behalf of the management:

Chairman	**Chief Accountant**
S.N. Roumas	M.A. Shapavalava
15 April 2010	15 April 2010

The notes on pages 10-58 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
NET PROFIT		14,835	56,896
OTHER COMPREHENSIVE INCOME			
Revaluation of securities available for sale at fair value		(11,133)	-
TOTAL OTHER COMPREHENSIVE INCOME		(11,133)	-
TOTAL COMPREHENSIVE INCOME		3,702	56,896
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:			
Shareholders of the Bank		6,400	56,960
Non-controlling interest		(2,698)	(64)

On behalf of the management:

Chairman
S.N. Roumas
15 April 2010

Chief Accountant
M.A. Shapavalava
15 April 2010

The notes on pages 10-58 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

	Notes	31 December 2009	31 December 2008
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	11, 25	403,497	492,470
Due from banks	12, 25	81,780	170,101
Precious metals		2,466	2,219
Derivative financial instruments	13, 25	19,926	29,911
Loans to customers	14, 25	17,489,738	12,550,637
Investments in securities available for sale	15, 25	516,873	1,384,685
Property, equipment and intangible assets	16	479,121	363,862
Current income tax assets	25	9,046	6,540
Deferred income tax assets	10	25,757	-
Other assets	17, 25	236,903	184,113
TOTAL ASSETS		19,265,107	15,184,538
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to the National Bank of the Republic of Belarus	18, 25	2,554,477	1,013,054
Due to banks	19, 25	3,655,544	1,870,080
Derivative financial instruments	13, 25	326	644
Customer accounts	20, 25	8,129,407	7,748,451
Debt securities issued	21	173,358	189,666
Current income tax liabilities	25	11,237	7,427
Deferred income tax liabilities	10	72,594	-
Commitments to provide loans at below market rates	14, 25	5,157	163,327
Other liabilities	22, 25	99,515	75,693
Total liabilities		14,701,615	11,068,342
EQUITY:			
Share capital	23	4,438,544	4,388,544
Treasury shares		(35)	(37)
Fair value reserve for investments available for sale		(11,133)	-
Retained earnings/ (accumulated deficit)		138,549	(272,311)
Total equity attributable to shareholders of the Bank		4,565,925	4,116,196
Non-controlling interest		(2,433)	-
Total equity		4,563,492	4,116,196
TOTAL LIABILITIES AND EQUITY		19,265,107	15,184,538

On behalf of the management:

Chairman
S.N. Roumas
15 April 2010

Chief Accountant
M.A. Shapavalava
15 April 2010

The notes on pages 10-58 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

	Notes	Share Capital	Treasury shares	Fair value reserve for investments available for sale	(Accumulated deficit)/ retained earnings	Total equity attributable to shareholders of the Bank	Non-controlling interest	Total equity
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
Comprehensive income/(loss)		-	-	-	56,960	56,960	(64)	56,896
31 December 2008		4,388,544	(37)	-	(272,311)	4,116,196	-	4,116,196
Share capital increase	23	50,000	-	-	-	50,000	-	50,300
Sale of treasury shares	23	-	2	-	-	2	-	2
Dividends declared and paid for 2008	23	-	-	-	(6,587)	(6,587)	(55)	(6,642)
Distribution of equity to the Government of the Republic of Belarus related to issuing of loans at below market rates	14,23	-	-	-	(252,997)	(252,997)	-	(252,997)
Distribution of equity to the Government of the Republic of Belarus related to commitments to issue loans at below market rates	14,23	-	-	-	(5,157)	(5,157)	-	(5,157)
Contribution to equity from the Government of the Republic of Belarus related to receiving finance at below market rates	20,23	-	-	-	367,105	367,105	-	367,105
Compensation received from the Government of the Republic of Belarus related to loans issued under the Government lending programs	14,23	-	-	-	290,963	290,963	-	290,963
Contribution from non-controlling shareholders upon origination of new subsidiary		-	-	-	-	-	20	20
Contribution to share capital of subsidiary by non-controlling shareholders		-	-	-	-	-	300	300
Comprehensive income/(loss)		-	-	(11,133)	17,533	6,400	(2,698)	3,702
31 December 2009		4,438,544	(35)	(11,133)	138,549	4,565,925	(2,433)	4,563,492

On behalf of the management:

Chairman
S.N. Roumas
15 April 2010

Chief Accountant
M.A. Shapavalava
15 April 2010

The notes on pages 10-58 form an integral part of these consolidated financial statements.

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

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		152,112	102,262
Adjustments for:			
Provision for impairment losses on interest bearing assets		198,469	71,046
Other provisions		3,843	4,298
Amortization of discount on loans to customers		(106,515)	(76,387)
Depreciation and amortization of property, equipment and intangible assets		26,381	18,589
(Gain)/loss on disposal of property, equipment and intangible assets		(987)	894
Loss/(gain) on investments available for sale		379	(768)
Write-down of inventory to net realizable value		1,014	-
Change in commission accruals, net		(3,168)	(674)
Change in fair value of derivative financial instruments, net		9,667	(8,500)
Translation differences, net		198,949	(17,152)
Change in interest accruals, net		(48,302)	(15,504)
Cash flows from operating activities before changes in operating assets and liabilities		431,842	78,104
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum obligatory reserve deposit with the National Bank of the Republic of Belarus		69,919	(94,923)
Due from banks		71,528	(31,726)
Precious metals		(247)	(489)
Loans to customers		(4,858,080)	(6,019,224)
Other assets		(58,875)	(124,889)
Increase in operating liabilities:			
Due to the National Bank of the Republic of Belarus		1,541,731	465,186
Due to banks		1,438,490	587,622
Customer accounts		291,940	3,995,691
Other liabilities		19,769	7,917
Cash outflow from operating activities before taxation		(1,051,983)	(1,136,731)
Income taxes paid		(89,136)	(42,875)
Net cash outflow from operating activities		(1,141,119)	(1,179,606)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(137,624)	(141,766)
Proceeds on sale of property, equipment and intangible assets		4,981	3,839
Repayment of consideration for subsidiary acquisition		-	(1,216)
Purchase of investments available for sale		(1,220,867)	(1,664,448)
Proceeds on sale and redemption of investments available for sale		2,078,954	825,117
Net cash inflow/(outflow) from investing activities		725,444	(978,474)

The notes on pages 10-58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2009
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(6,642)	(5,162)
Share capital increase		50,000	1,950,000
Sale/(purchase) of treasury shares		2	(2)
Compensation received from the Government of the Republic of Belarus related to loans issued under the Government lending programs		290,963	159,773
Contribution from non-controlling shareholders upon set up of subsidiary		20	-
Increase of share capital of subsidiaries (contribution from non-controlling shareholders)		300	-
(Repayment)/proceeds on issue of debt securities, net		(29,407)	147,276
Net cash inflow from financing activities		305,236	2,251,885
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(110,439)	93,805
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		25,970	(2,473)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11	391,595	300,263
CASH AND CASH EQUIVALENTS, END OF YEAR	11	307,126	391,595

Interest paid and received by the Group during the year ended 31 December 2009 amounted to BYR 1,533,010 million and BYR 1,863,574 million, respectively.

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.

On behalf of the management:

Chairman
S.N. Roumas
15 April 2010

Chief Accountant
M.A. Shapavalava
15 April 2010

The notes on pages 10-58 form an integral part of these consolidated financial statements.

(in millions of Belarusian Roubles unless otherwise stated)

1. ORGANIZATION

Open Joint Stock Company "Belagroprombank" ("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 participates 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 22 July 2009 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 88 (2008:109) branches: 6 regional offices, Minsk city directorate, 80 (2008:101) local branch offices throughout the Republic of Belarus and Representative office in the Italian Republic.

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

Shareholder	**31 December 2009**	**31 December 2008**
State Property Committee of the Republic of Belarus	69.18%	70.09%
RUE "Belgosstrakh"	16.76%	16.98%
RUE "Belarusian National Reinsurance Organization"	9.02%	9.14%
Regional Executive Committees	3.22%	3.26%
PUE "Beleximgarant"	1.29%	-
Other	0.53%	0.53%
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 2009	**31 December 2008**	
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%	100%	Consulting services
JSC "Turovschina"	Republic of Belarus	99.9%	-	Agriculture

In June 2009 the decision to set up new subsidiary JSC "Turovschina", has been taken by the Supervisory Board. On 20 August 2009 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 2009 were authorized for issue on 15 April 2010 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 have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The Management believes that the going concern assumption is appropriate for the Group due to sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

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 acquired before 1 January 2006 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 end of reporting period, 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 end of reporting period key assumptions concerning the future and other key sources of estimation uncertainty, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include the following:

	31 December 2009	**31 December 2008**
Allowance for impairment of loans to customers	425,553	237,618
Derivative financial instruments (assets)	19,926	29,911
Derivative financial instruments (liabilities)	326	644
Unrecognized deferred tax assets	2,935	5,359

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.

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 risk-free interest rates for foreign currencies and Belarusian rouble relevant to Belarusian market 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.

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.

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.

Business combinations are accounted using purchase method. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition irrespective of non-controlling interest.

Non-controlling interest is a share of subsidiary not owned by the Group. Non-controlling interest as of end of reporting period represents share in fair value of identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition plus post-acquisition changes in the subsidiary’s equity. Profit or loss of subsidiary is attributed to the Group and non-controlling interest even if this results in the non-controlling interests having a deficit balance. Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Bank.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in the consolidated statement of financial position 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, which may be converted to cash within a short period of time, except for guarantee deposits and other restricted balances. For purposes of consolidated statement of cash flows, the minimum obligatory reserve deposit required by the National Bank is not included as a cash equivalent due to restrictions on its availability.

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.

Under standard terms for repurchase transactions in the Republic of Belarus, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

Financial assets and liabilities at fair value through profit or loss, derivative financial instruments

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

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

Derivative financial instruments with foreign currency are initially recorded and subsequently measured at fair value. Derivatives fair values are determined using interest rate parity model. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the income statement for the period in which they arise.

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 transaction costs related to origination of such assets.

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

The Group accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and collateral discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

For financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or group evaluation of financial assets not being material individually.

The change in the impairment is recognized in the consolidated income statement using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the end of reporting period, although it is probable that in certain periods the Group can incur losses greater than recorded impairment.

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 in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the 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 other comprehensive income until sold when gain/loss previously recorded in other comprehensive income recycles through profit or loss, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest rate method, which are recognized directly in profit or loss. When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in other comprehensive income is removed from other comprehensive income and recognized in consolidated income statement for the period.

The Group uses quoted market prices to determine the fair value for the Group's investments available for sale. If the market for investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other applicable methods. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Dividends received are included in other 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.

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 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 recognized in the consolidated income statement 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 the end of each reporting period 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 end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The taxpayer 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 to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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.

Other provisions

Other 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 statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position 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 the amount of cash contributed. 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 end of reporting period 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 the pension fund. The Group does not have any pension arrangements separate from the State pension system of the Republic of Belarus. Moreover, 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 Belarusian roubles – 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 end of reporting period. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

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

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

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position when the 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 period ended on 31 December 2009.

Amendment to IAS 1 "Presentation of Financial Statements"
In September 2007, the IASB issued an amendment to IAS 1 which is effective for annual periods beginning on or after 1 January 2009. The amendment introduces separate presentation of changes in equity related to transactions with owners and other changes. It also changes the titles of primary financial statements as they will be referred to in IFRS but does not require that these be renamed in an entity's financial statements.

Due to this amendment the Group changed the title "balance sheet" into "statement of financial position" in the financial statements for the year ended 31 December 2009, it also chose to present a statement of comprehensive income in two statements: a separate income statement and a separate statement of comprehensive income displaying components of other comprehensive income.

IFRS 7 "Financial instruments: Disclosure"
Revised IFRS 7 issued in March 2009 requires additional disclosure on fair value measurement and liquidity risk. For each class of financial instruments carried at fair value, fair value is to be disclosed using three-level hierarchy based on the sources of information. Amendment also requires disclosure of additional information about level 3 of the hierarchy and transfers between the levels. In respect of liquidity risk amendment clarifies the requirement of disclosure related to derivative financial instruments and assets used for liquidity risk management. Comparative information is not required.

IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" (revised)
In January 2008 revised IAS 27 and IFRS 3 were issued; effective for annual periods beginning on or after 1 July 2009 with early application option (in this case both amended standards should be adopted). The Group adopted revised IFRS 3 and IAS 27 in these consolidated financial statements. Revised IFRS 3 clarifies and changes certain elements of accounting for a business combination and also widens the scope of this standard – these changes did not affect the consolidated financial statements of the Group for the year ended 31 December 2009 as there were no business combinations in the reporting period.

Under revised IAS 27 subsequent increase of share in subsidiary is accounted as transaction between equity owners and does not affect goodwill or profit or loss. The amendments are related also to accounting for non-controlling interests (profit or loss of subsidiary is attributed to the Group and non-controlling interest even if this results in the non-controlling interests having a deficit balance in the statement of financial position) and the loss of control of a subsidiary. Amendments are applied prospectively; therefore the Group did not amend comparative information for the year ended 31 December 2008.

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

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

The 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 2009	Year ended 31 December 2008
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	1,899,914	925,907
Interest on due from banks	25,600	7,198
Other interest income	4,076	1,862
Total interest income on financial assets recorded at amortized cost	1,929,590	934,967
Interest income on financial assets recorded at fair value comprises:		
Interest on investments available for sale	90,027	42,973
Total interest income	2,019,617	977,940
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	889,161	517,681
Interest on due to banks	584,467	214,326
Interest on REPO transactions	38,620	15,275
Interest on debt securities issued	21,988	15,121
Other interest expense	-	846
Total interest expense	1,534,236	763,249
Net interest income before provision for impairment losses on interest bearing assets	485,381	214,691

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 2007	4	166,572	166,576
Assets write-off	(4)	-	(4)
Provision	-	71,046	71,046
31 December 2008	-	237,618	237,618
Assets write-off	-	(10,534)	(10,534)
Provision	-	198,469	198,469
31 December 2009	-	425,553	425,553

The movements in other provisions were as follows:

	Other assets	Guarantees and other commitments	Total
31 December 2007	565	9,411	9,976
(Recovery of provision)/provision	(565)	4,863	4,298
31 December 2008	-	14,274	14,274
Provision	-	3,843	3,843
31 December 2009	-	18,117	18,117

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 (LOSS)/GAIN ON FOREIGN EXCHANGE OPERATIONS

Net (loss)/gain on foreign exchange operations comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Dealing, net	84,396	75,601
Translation differences, net	(198,949)	17,152
Total net (loss)/gain on foreign exchange operations	(114,553)	92,753

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income:		
Commission for transactions on customer accounts and other customer service fees	233,742	195,401
Commission on foreign exchange transactions	10,498	7,603
Commissions on transactions with securities	458	304
Other fee and commission income	3,324	2,517
Total fee and commission income	248,022	205,825
Fee and commission expense:		
Commission on documentary transactions	8,912	3,292
Commission on transactions with plastic cards	7,918	4,931
Commission on cash collection	1,784	2,040
Commission on foreign exchange transactions	885	842
Commission on transactions with banks	740	587
Commission on transactions with securities	655	254
Other fee and commission expense	1,418	1,625
Total fee and commission expense	22,312	13,571

8. OTHER INCOME

Other income comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Revenue on non-banking activities of subsidiaries	23,840	14,201
Fines and penalties received	6,149	1,259
Income from disposal of property and equipment and other assets	2,092	-
Repayment of loans and receivables previously written off	1,919	49
Income from operating leases	440	594
Other	4,426	1,891
Total other income	38,866	17,994

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Staff costs	166,309	134,146
Social security contributions	50,406	44,015
Taxes, other than income tax	31,603	29,227
Utilities, rentals and maintenance	28,266	19,774
Depreciation and amortization	26,381	18,589
Contributions to deposits protection fund	23,018	856
Raw materials and inventory consumed in non-banking activities of subsidiaries	17,087	11,992
Security expenses	15,115	14,892
Stationery and other office expenses	9,633	10,849
Expenses on payments processing and transmission	9,132	5,230
Professional services	7,223	6,362
Vehicles maintenance and fuel	4,409	3,775
Communications and postage	4,080	3,156
Software procurement and maintenance expenses	3,937	3,824
Charity	994	1,031
Net loss on disposal of property, equipment and intangible assets	-	894
Other expenses	15,441	5,591
Total operating expenses	413,034	314,203

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 2009 and 2008, 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 2009 and 2008 the combined rate was 26.28%. PUE “Ozeritskiy-Agro” and OJSC “Turovschina” was not subject to income taxes. The Bank’s branches are separate taxpayers of the 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 2009 and 2008 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 2009 and 2008 comprise:

	31 December 2009	**31 December 2008**
Deductible temporary differences:		
Property, equipment and intangible assets	126,424	121,172
Other assets	22,422	23,189
Other liabilities	18,157	15,287
Total deductible temporary differences	167,003	159,648
Taxable temporary differences:		
Loans to customers	(217,918)	(33,634)
Accrued interest and commission income	(107,719)	(63,104)
Derivative financial instruments	(4,388)	(36,241)
Due to banks	(4,036)	(6,276)
Total taxable temporary differences	(334,061)	(139,255)
Net temporary differences	(167,058)	20,393
Including amounts for separate taxpayers:		
Net deductible temporary differences	109,175	20,393
Net taxable temporary differences	(276,233)	-
Deferred tax assets at the combined statutory rate 26.28%	28,692	5,359
Less deferred tax assets not recognized	(2,935)	(5,359)
Net deferred tax assets	25,757	-
Deferred tax liability at the combined statutory rate 26.28%	(72,594)	-
Net deferred tax position	(46,837)	-

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

	Year ended 31 December 2009	**Year ended 31 December 2008**
Profit before income taxes	152,112	102,262
Tax at the statutory tax rate (26.28%)	39,975	26,874
Effect of accounting for transactions under government lending programs and Government deposits	69,336	28,120
Tax effect of non-deductible expenses and losses not carried forward in accordance with legislation	45,352	17,038
Tax effect of non-taxable income and other tax benefits	(12,974)	(11,861)
Effect of change in tax base of property and equipment due to revaluation performed under Belarusian statutory accounting rules	(3,877)	(19,094)
Tax effect of other permanent differences	1,889	1,011
Effect of change in deferred tax assets not recognized	(2,424)	3,278
Income tax expense	137,277	45,366
Current income tax expense	90,439	45,366
Deferred income tax expense	46,838	-
Total income tax expense	137,277	45,366

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

Cash and balances with the National Bank comprise:

	31 December 2009	31 December 2008
Cash	293,896	238,760
Balances with the National Bank	109,601	253,710
Total cash and balances with the National Bank	403,497	492,470

The balances with the National Bank as at 31 December 2009 and 2008 included minimum reserve deposit in the amount of BYR 107,937 million and BYR 177,856 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 2009	31 December 2008
Cash and balances with the National Bank	403,497	492,470
Due from banks in OECD countries with original maturities less than 90 days	11,566	76,981
Total cash and cash equivalents	415,063	569,451
Less minimum reserve deposit with the National Bank	(107,937)	(177,856)
Total cash and cash equivalents	307,126	391,595

12. DUE FROM BANKS

Due from banks comprise:

	31 December 2009	31 December 2008
Correspondent accounts and advances to banks	81,494	155,546
Loans and term deposits from banks	286	14,555
Total due from banks	81,780	170,101

As at 31 December 2009 and 2008 correspondent accounts and advances to banks included fixed amounts of BYR 47,928 million and BYR 53,147 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 2009 comprised the following:

Foreign currency purchase contracts (forwards)	Nominal amount (in units of currency to be purchased)	Fair value	
		Asset	Liability
USD/BYR	USD 16,200,000	10,393	(215)
EUR/BYR	EUR 12,500,000	9,427	(77)
USD/RUB	USD 4,500,000	78	-
USD/EUR	USD 4,099,505	27	(34)
EUR/RUB	EUR 1,000,000	1	-
Total derivative financial instruments		19,926	(326)

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

Foreign currency 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)
RUB/USD	RUB 89,250,000	245	-
RUB/BYR	RUB 50,000,000	-	(75)
Total derivative financial instruments		29,911	(644)

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2009	31 December 2008
Originated loans	17,795,874	12,733,839
Net investment in finance lease	119,417	54,416
	17,915,291	12,788,255
Less allowance for impairment losses	(425,553)	(237,618)
Total loans to customers	17,489,738	12,550,637

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

Loans, grouped by the type of collateral and by sector are presented in the following tables. Grouping by collateral is based on carrying amount of the loan rather than on fair value or otherwise adjusted value of collateral.

	31 December 2009	31 December 2008
Loans collateralized by guarantees of the Government and local authorities	9,809,174	2,956,672
Loans collateralized by property and goods in turnover	4,048,580	4,248,564
Loans collateralized by real estate	2,018,645	2,518,202
Loans collateralized by lines over property and receivables	1,117,997	2,994,681
Loans collateralized by cash	3,786	1,208
Loans collateralized by other types of collateral	917,109	68,928
	17,915,291	12,788,255
Less allowance for impairment losses	(425,553)	(237,618)
Total loans to customers	17,489,738	12,550,637

	31 December 2009	31 December 2008
Analysis by sector:		
Agriculture	8,252,695	6,979,092
Manufacturing	4,990,998	3,468,292
Trade	2,372,914	565,972
Individuals	904,177	634,810
Construction	251,568	292,082
Government bodies	104,995	122,650
Other	1,037,944	725,357
	17,915,291	12,788,255
Less allowance for impairment losses	(425,553)	(237,618)
Total loans to customers	17,489,738	12,550,637

As at 31 December 2009 and 2008 loans with the carrying amount before provision for impairment losses amounted to BYR 30,268 million and BYR 135,246 million, respectively, were pledged to secure liabilities on debt securities issued (Note 21).

Loans to individuals comprise the following products:

	31 December 2009	31 December 2008
Consumer loans	792,710	539,027
Loans for purchase/construction of property	111,467	95,783
	904,177	634,810
Less allowance for impairment losses	(2,540)	(6,348)
Total loans to individuals	901,637	628,462

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

	31 December 2009			31 December 2008		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually assessed for impairment	1,188,623	(68,504)	1,120,119	979,176	(38,582)	943,594
Loans to customers collectively assessed for impairment	16,649,358	(357,049)	16,292,309	11,727,825	(202,036)	11,525,789
Unimpaired loans	77,310	-	77,310	81,254	-	81,254
Total	17,915,291	(425,553)	17,489,738	12,788,255	(237,618)	12,550,637

At 31 December 2009 and 2008 loans to customers included loans in the amount of BYR 1,839 million and BYR 345 million, respectively whose final maturity has been renegotiated. Otherwise these loans would be past due or impaired.

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

	31 December 2009	**31 December 2008**
Not later than one year	47,376	27,507
From one year to five years	104,728	44,506
Minimum lease payments	152,104	72,013
Less: unearned finance income	(32,687)	(17,597)
Net investment in finance lease	119,417	54,416
Less allowance for impairment losses	(1,252)	(1,011)
Total net investments in finance lease	118,165	53,405
Current portion	37,267	19,271
Long-term portion	82,150	35,145
Net investment in finance lease	119,417	54,416
Less allowance for impairment losses	(1,252)	(1,011)
Total net investments in finance lease	118,165	53,405

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 2009 the Bank had contractual commitments to disburse loans at below market rate to a manufacturing enterprise resident of the Republic of Belarus in the nominal amount of BYR 11,969 million. As at 31 December 2008 the Bank 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 5,157 million and BYR 163,327 million, respectively.

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 2009	31 December 2008	31 December 2009	31 December 2008
Housing loans - non-compensated	3%	40	2,207,959	1,312,342	2,207,959	1,312,342
Housing loans - compensated	3%	40	2,200,689	2,060,810	2,200,689	2,060,810
Machinery loans - non-compensated	2%	5-8	118,803	116,222	99,059	92,708
Machinery loans - compensated	2%	5-8	801,433	655,554	649,139	575,079
Milk farms construction loans - compensated	0%	to 12	981,841	220,246	687,160	158,503
Current assets financing - compensated	3.25%	2-5	1,049,244	1,064,159	1,029,480	1,013,095
Other beneficial loans – non-compensated	0-11%	1-13	158,266	97,955	145,266	89,036
Other beneficial loans – compensated	0-11%	3-8	108,786	988	72,741	983
Total loans under Government programs			7,627,021	5,528,276	7,091,493	5,302,556

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 the borrowers’ category 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 2009	31 December 2008
Debt securities available for sale:		
Long-term Government bonds	341,015	1,363,279
Bonds issued by local authorities	60,814	-
Bond issued by legal entities	64,236	-
Short-term Government bonds	-	20,620
	466,065	1,383,899
Corporate shares available for sale	50,808	786
Total investments in securities available for sale	516,873	1,384,685

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 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.

Bonds issued by local authorities – BYR denominated coupon securities that are issued by Grodno region executive committee with original maturity less than one year.

Bond issued by legal entities – BYR denominated coupon securities that are issued by Belarusian enterprises with original maturity from 9 months to 4 years.

As at 31 December 2009 and 2008 included in securities available for sale were long-term Government bonds in the amount of BYR 48,801 million and BYR 58,094 million, respectively, which were pledged as collateral for debt securities issued (Note 21).

As at 31 December 2009 long-term Government bonds were pledged as collateral against loans received under agreements to repurchase with Belarusian banks at fair value amounted to BYR 288,987 million (Note 19).

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 2009 included in corporate shares available for sale are shares of OJSC "Promagroleasing" for the amount of BYR 50,003 million. Group's share in equity of OJSC "Promagroleasing" was 12.5%. These investments do not have market values and were recorded in consolidated financial statements at cost.

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 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
Additions	38,862	15,653	10,833	39,796	42,033	147,177
Putting into operation and transfers	36,509	1,671	79	5,173	(43,432)	-
Disposals	(1,099)	(1,661)	(1,199)	(4,615)	-	(8,574)
31 December 2009	284,770	61,403	26,850	136,426	64,229	573,678
Accumulated depreciation						
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
Charge for the year	4,574	7,801	2,207	13,342	-	27,924
Disposals	(324)	(1,593)	(1,072)	(1,591)	-	(4,580)
31 December 2009	21,515	25,267	9,044	38,731	-	94,557
Net book value						
31 December 2009	263,255	36,136	17,806	97,695	64,229	479,121
31 December 2008	193,233	26,681	9,228	69,092	65,628	363,862

A part of depreciation charge for the years ended 31 December 2009 and 2008 in the amount of BYR 1,543 million and BYR 1,172 million, respectively, is included in carrying amount of inventory and work in progress from agricultural activities.

17. OTHER ASSETS

Other assets comprise:

	31 December 2009	31 December 2008
Other financial assets:		
Accrued commissions receivable	5,036	1,868
Settlements with Belarusian stock exchange on foreign currency transactions	2,024	22,275
Accounts receivable on non-banking activity	499	2,956
Other accounts receivable in banking activity	63	782
Total other financial assets	7,622	27,881
Other non-financial assets:		
Equipment for transfer to finance lease	111,948	49,276
Tax settlements, other than income taxes	41,770	26,314
Inventory in stock and work in progress in non-banking activities	39,447	29,744
Prepayments for property, equipment and intangible assets	7,652	17,372
Other prepayments	22,004	31,587
Other non-financial assets	6,460	1,939
Total other assets	236,903	184,113

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

As at 31 December 2009 and 2008 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 2009	31 December 2008
Long-term loans	2,234,900	907,700
Short-term loans	319,577	79,632
Loans under agreements to repurchase	-	25,722
Total due to National Bank	2,554,477	1,013,054

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 2009	31 December 2008
Loans from banks	3,236,738	1,598,234
Loans under repurchase agreements	285,833	59,470
Syndicated loans from groups of banks	122,250	207,615
Correspondent accounts of banks	10,723	4,761
Total due to banks	3,655,544	1,870,080

As at 31 December 2009 and 2008 the balances due to banks in the amounts of BYR 1,321,241 million and BYR 436,056 million were due to two banks (resident of the Republic of Belarus and resident of an OECD country) and one bank (resident of the Republic of Belarus), respectively, amount due to each exceeding 10% of the Group's equity, which represented significant concentration.

As at 31 December 2009 and 2008 loans under repurchase agreements are represented by short-term loans granted by Belarusian banks with maturity of up to 30 days and from 31 to 90 days which are collateralized by short-term Government bonds at fair value of BYR 288,987 million and BYR 60,008 million, respectively (Note 15).

As at 31 December 2009 included in balances due to banks is a syndicated loan facility from the group of banks for the principle amount of USD 43.5 million. The loan matures on 26 November 2010. Carrying amount of BYR 122,250 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 55 million. The loan matures on 1 September 2009. 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. Carrying amount of BYR 88,541 million is adjusted for amortization of commissions.

20. CUSTOMERS ACCOUNTS

Customer accounts comprise:

	31 December 2009	31 December 2008
Time deposits	6,793,095	6,779,199
Current accounts and deposits repayable on demand	1,336,312	969,252
Total customer accounts	8,129,407	7,748,451

During the year ended 31 December 2009 and 2008 the Group received long-term BYR denominated deposits from the Ministry of Finance of the Republic of Belarus at below market rates (0.001-6.0 per cent per annum). Funds received were used for issuing of loans to customers under Government programs (Note 14).

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. The information on these deposits is presented in the following table:

	31 December 2009	31 December 2008
Nominal amount	2,848,674	1,808,221
Amortized cost	2,402,780	1,605,414

	Year ended 31 December 2009	Year ended 31 December 2008
Initial recognition adjustment	367,105	194,484

As at 31 December 2009 and 2009 customer accounts amounting to BYR 53,456 million and BYR 64,435 million, respectively, were held as security against letters of credit issued by the Group.

As at 31 December 2009 and 2008 customer accounts in the amounts of BYR 4,417,297 million (54% of total customer accounts) and BYR 4,686,423 million (60% of total customer accounts), respectively, were due to 2 customers (2 state bodies), which represented significant concentration.

Analysis by sector:	**31 December 2009**	**31 December 2008**
Government bodies	4,556,930	4,968,018
Individuals	2,037,518	1,451,251
Trade	511,886	170,825
Manufacturing	310,108	380,120
Agriculture	205,313	309,120
Construction	132,734	219,663
Insurance and finance	123,493	65,181
Transport	10,657	9,305
Other	240,768	174,968
Total customer accounts	8,129,407	7,748,451

21. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2009	**31 December 2008**
Interest bearing bonds	159,732	178,083
Bonds issued with a discount	13,605	11,505
Promissory notes	21	78
Total debt securities issued	173,358	189,666

Interest bearing bonds – BYR and 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 2009 and 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 30,268 million and BYR 135,246 million respectively (Note 14), and long-term Government bonds, which are owned by the Bank in the carrying amount of BYR 48,801 million and BYR 58,094 million respectively (Note 15).

22. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2009	31 December 2008
Other financial liabilities:		
Trade payables on non-banking activities	14,858	14,856
Other creditors	11,107	13,892
Total other financial liabilities	25,965	28,748
Other non-financial liabilities:		
Advances and prepayments received	43,888	24,623
Provision for guarantees and other commitments	18,117	14,274
Accruals for unused vacation	4,252	4,721
Taxes payable, other than income taxes	4,106	2,668
Other	3,187	659
Total other liabilities	99,515	75,693

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

23. SHARE CAPITAL

As at 31 December 2009 and 2008 the authorized, issued and fully paid share capital comprised 1,939,310,642 and 1,914,310,642 ordinary shares, respectively, 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; amount of dividends for preference shares is determined annually by shareholders meeting.

In October 2009 the Bank issued 25,000,000 ordinary shares, which were paid by cash by PUE "Beleximgarant" in the amount BYR 50,000 million.

In December 2008 the Bank issued 975,000,000 ordinary shares, 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.

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 years ended 31 December 2009 and 2008 amounted to BYR 367,105 million and BYR 194,484 million, respectively.

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 2009 and 2008 amounted to BYR 252,997 million and BYR 250,375 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 years ended 31 December 2009 and 2008 amounted to BYR 5,157 million and BYR 163,327 million, respectively.

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 2009 and 2008 amounted to BYR 290,963 million and BYR 159,773 million, respectively.

The dividends declared and paid in 2009 for 2008 amounted to BYR 3.44 per ordinary share and BYR 300 per preference share. Total amount of dividends was BYR 6,587 million.

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.

During the year ended 31 December 2009 the Bank sold treasury shares in the amount of BYR 2 million. During the year ended 31 December 2008 the Bank purchased its own shares in the amount of BYR 2 million.

The Bank’s funds distributable to shareholders are limited to the amount of retained earnings that are stated in the financial statements prepared in accordance with Belarusian statutory accounting rules. As per those financial statements as at 31 December 2009 and 2008 the retained earnings comprised BYR 85,500 million and BYR 41,862 million, respectively (not audited). Non-distributable funds comprise the reserve fund and tangible assets revaluation fund. The reserve fund was created under Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities.

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 statement of financial position.

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 2009 and 2008 provision on guarantees and other commitments amounted to BYR 18,117 million and BYR 14,274 million, respectively (Note 22).

As at 31 December 2009 and 2008 the nominal or contract amounts were:

	31 December 2009	**31 December 2008**
Guarantees issued and similar commitments	80,946	58,785
Letters of credit issued	292,159	393,673
Commitments on loans and unused credit lines	705,788	1,158,167
Total contingent liabilities and credit commitments	1,078,893	1,610,625

As at 31 December 2009 and 2008 commitments on loans and unused credit lines include commitments to issue loans below market rates in the nominal amount of BYR 11,969 million and BYR 568,787 million, respectively. These commitments were recognized as financial liabilities at approximated fair value of BYR 5,157 million and BYR 163,327 million, respectively (Note 14).

Operating lease commitments – The Group had no material commitments on operating leases outstanding as at 31 December 2009 and 2008.

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 are entitled for pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2009 and 2008 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;
(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 2009 and 2008 with related parties:

	31 December 2009		31 December 2008	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Due from the National Bank of the Republic of Belarus	**109,601**	**109,601**	**253,710**	**253,710**
Due from banks	**1,608**	**81,780**	**2,234**	**170,101**
- state entities (under common control of the State)	1,608		2,234	
Derivative financial instruments (assets)	**19,820**	**19,926**	**29,666**	**29,911**
- Government bodies (the National Bank)	19,820		29,666	
Loans to customers, gross	**10,506,477**	**17,915,291**	**7,184,235**	**12,788,255**
- state entities (under common control of the State)	10,398,884		7,059,260	
- Government bodies	104,995		122,650	
- key management personnel	2,598		2,325	
Allowance for impairment losses on loans to customers	**(288,920)**	**(425,553)**	**(150,543)**	**(237,618)**
- state entities (under common control of the State)	(281,673)		(147,988)	
- Government bodies	(7,247)		(2,555)	
Investments in securities available for sale	**475,990**	**516,873**	**1,384,628**	**1,384,685**
- Government bodies	401,829		1,384,628	
- state entities (under common control of the State)	74,161		-	
Current income taxes asset	**9,046**	**9,046**	**6,540**	**6,540**
Other assets	**44,324**	**236,903**	**48,589**	**184,113**
- Government bodies	41,771		26,314	
- state entities (under common control of the State)	2,553		22,275	
Due to the National Bank of the Republic of Belarus	**2,554,477**	**2,554,477**	**1,013,054**	**1,013,054**
Due to banks	**908,469**	**3,655,544**	**664,733**	**1,870,080**
- state entities (under common control of the State)	908,469		664,733	
Derivative financial instruments (liabilities)	**-**	**326**	**569**	**644**
- Government bodies	-		569	
Customer accounts	**5,316,286**	**8,129,407**	**5,724,481**	**7,748,451**
- Government bodies	4,556,930		4,968,018	
- state entities (under common control of the State)	658,897		726,128	
- shareholders of the Bank	98,292		28,592	
- key management personnel	2,167		1,743	
Current income taxes liability	**11,237**	**11,237**	**7,427**	**7,427**
Commitments to provide loans at below market rates	**5,157**	**5,157**	**62,998**	**163,327**
- state entities (under common control of the State)	5,157		62,998	
Other liabilities	**4,124**	**99,515**	**2,668**	**75,693**
- Government bodies	4,106		2,668	
- state entities (under common control of the State)	18		-	
Guarantees issued and similar commitments	**53,439**	**80,946**	**39,825**	**58,785**
- Government bodies	946		-	
- state entities (under common control of the State)	52,493		39,825	
Letters of credit issued	**246,921**	**292,159**	**314,311**	**393,673**
- state entities (under common control of the State)	243,848		306,507	
- Government bodies	3,073		7,804	
Commitments on loans and unused credit lines	**362,497**	**705,788**	**495,664**	**1,158,167**
- state entities (under common control of the State)	361,760		485,128	
- Government bodies	388		9,970	
- key management personnel	349		566	
Provision for guarantees and other commitments	**(15,410)**	**(18,117)**	**(6,368)**	**(14,274)**
- state entities (under common control of the State)	(15,410)		(6,368)	

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

	Year ended 31 December 2009		Year ended 31 December 2008	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	**837,342**	**2,019,617**	**498,275**	**977,940**
- state entities (under common control of the State) - customers	818,845		451,279	
- Government bodies	18,060		46,490	
- state entities (under common control of the State) - banks	271		389	
- key management personnel	138		117	
- shareholders of the Bank	28		-	
Fee and commission income	**106,410**	**248,022**	**77,914**	**205,825**
- state entities (under common control of the State)	102,368		77,730	
- Government bodies	2,713		183	
- shareholders of the Bank	1,328		-	
- key management personnel	1		1	
Interest expenses	**1,064,882**	**1,534,236**	**504,935**	**763,249**
- Government bodies	581,320		332,213	
- National Bank (under common control of the State)	333,117		88,785	
- state entities (under common control of the State) - banks	112,007		53,957	
- state entities (under common control of the State) - customers	29,593		29,899	
- shareholders of the Bank	8,717		-	
- key management personnel	128		81	
Provision for impairment losses on interest bearing assets	**146,546**	**198,469**	**39,898**	**71,046**
- state entities (under common control of the State)	141,854		38,530	
- Government bodies	4,692		1,368	
Other provisions	**9,042**	**3,843**	**2,108**	**4,298**
- state entities (under common control of the State)	9,042		2,108	
Other income	**5,651**	**38,866**	**52**	**17,994**
- state entities (under common control of the State)	5,607		52	
- Government bodies	28		-	
- shareholders of the Bank	16		-	
Operating expenses	**120,713**	**413,034**	**84,784**	**314,203**
- key management personnel (remuneration)	5,961		5,456	
- state entities (under common control of the State)	548		-	
- Government bodies	114,204		79,328	
Income tax expense	**137,277**	**137,277**	**45,366**	**45,366**

During the years ended 31 December 2009 and 2008 key management personnel remuneration included in operating expenses caption in the table above comprised of short-term employee benefits.

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 statement of financial position of the Group is presented below:

	31 December 2009		31 December 2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS:				
Cash and balances with the National Bank of the Republic of Belarus	295,560	295,560	314,614	314,614
Due from banks	81,780	81,780	170,101	170,101
Derivative financial instruments	19,926	19,926	29,911	29,911
Investments in debt securities available for sale	466,065	466,065	1,383,899	1,383,899
Other financial assets	7,622	7,622	27,881	27,881
FINANCIAL LIABILITIES:				
Due to the National Bank of the Republic of Belarus	2,554,477	2,554,477	1,013,054	1,013,054
Due to banks	3,655,544	3,655,544	1,870,080	1,870,080
Derivative financial instruments	326	326	644	644
Customer accounts with variable interest rate	2,881,806	2,881,806	6,317,220	6,317,220
Debt securities issued	173,358	173,358	189,666	189,666
Other financial liabilities	25,965	25,965	28,748	28,748

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.

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

31 December 2009	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Derivative financial instruments	-	19,926	-	19,926
Investments in debt securities available for sale	341,015	125,050	-	466,065
	341,015	144,976	-	485,991
FINANCIAL LIABILITIES:				
Derivative financial instruments	-	326	-	326
	-	326	-	326

31 December 2008	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:				
Derivative financial instruments	-	29,911	-	29,911
Investments in debt securities available for sale	1,383,899	-	-	1,383,899
	1,383,899	29,911	-	1,413,810
FINANCIAL LIABILITIES:				
Derivative financial instruments	-	644	-	644
	-	644	-	644

27. SUBSEQUENT EVENTS

Dividends in the amount of BYR 8,541 million for the year 2009 were declared and approved in March 2010, comprising BYR 8,539 million for ordinary shares (BYR 4.4 per share) and BYR 2 million for preference shares (BYR 300 per share).

In March 2010 subsidiary of the Group JSC “Turovschina” gratuitously received from the State the ownership rights for the agricultural enterprise UE “Agro-Pripyat”. Net assets of UE “Agro-Pripyat” as of 31 December 2009 per financial statements prepared under legislation of the Republic of Belarus amounted to BYR 68,751 million (unaudited).

28. CAPITAL MANAGEMENT AND REGULATORY MATTERS

The Group manages its capital to ensure compliance with regulatory requirements and ability to continue as a going concern while maximizing the return to stakeholders through the optimization 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 management of 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 2009 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 4,563,492 million and BYR 4,574,625 million with ratios of 26.8% and 26.9%, respectively. 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%.

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 risks inherent to bank's activity. 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 to the Group;
- 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 and investment 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 2009 Maximum exposure	**31 December 2008 Maximum exposure**
Balances with the National Bank	1,664	75,854
Due from banks	81,780	170,101
Loans to customers	17,489,738	12,550,637
Investments in debt securities available for sale	466,065	1,383,899
Other financial assets	7,622	27,881
Guarantees issued and similar commitments not secured by cash	64,440	58,785
Letters of credit not collateralized by customer deposits	238,293	329,238
Commitments on loans and unused credit lines	705,788	1,158,167

Financial assets are graded according to the current credit rating of the issuer, assigned by an internationally regarded agency Fitch Ratings Ltd as of the end of respective reporting period. Balances with the National Bank and state securities are graded according to the sovereign rating of the Republic of Belarus.

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

	AA	**A**	**BBB**	**Below BBB**	**Not rated**	**31 December 2009 Total**
Balances in the National Bank	-	-	-	1,664	-	1,664
Due from banks	57,904	1,824	13,565	7,736	751	81,780
Loans to customers	-	-	-	-	17,489,738	17,489,738
Investments in securities available for sale	-	-	-	341,355	175,518	516,873
Other financial assets	-	-	-	-	7,622	7,622

	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

Carrying value of impaired loans to customers is disclosed in Note 14. Except for the above mentioned at 31 December 2009 and 2008 the Bank had no impaired financial assets.

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 2009 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	295,560	-	-	-	295,560
Due from banks	6,240	16,179	59,115	246	81,780
Derivative financial instruments	19,847	79	-	-	19,926
Loans to customers	17,489,738	-	-	-	17,489,738
Investments in securities available for sale	516,823	-	50	-	516,873
Other financial assets	7,622	-	-	-	7,622
TOTAL FINANCIAL ASSETS	18,335,830	16,258	59,165	246	18,411,499
FINANCIAL LIABILITIES:					
Due to the National Bank of the Republic of Belarus	2,554,477	-	-	-	2,554,477
Due to banks	1,839,004	408,843	1,396,203	11,494	3,655,544
Derivative financial instruments	326	-	-	-	326
Customer accounts	8,100,054	15,181	11,860	2,312	8,129,407
Debt securities issued	173,358	-	-	-	173,358
Other financial liabilities	25,965	-	-	-	25,965
TOTAL FINANCIAL LIABILITIES	12,693,184	424,024	1,408,063	13,806	14,539,077
OPEN POSITION	5,642,646	(407,766)	(1,348,898)	(13,560)	

	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)	

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, settlements center, 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 Management Board. Decisions on liquidity operational monitoring are made by Finance committee, Credit committee, Chairman of the Management Board, Deputy Chairman of the Management 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 performing the operations depending on current and forecasted liquidity position (liquidity gap or surplus). Maintenance of liquidity position is achieved through daily forecasts and measures taken by Treasury with regard to optimization of financial result from alternative transactions. Considering “profitability-liquidity” alternative, preference is given to liquidity position.

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 principal and interest cash flows) based on the earliest date on which the Group can be required to pay.

	Weighted average nominal 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 2009 Total**
FINANCIAL LIABILITIES:							
Due to the National Bank of the Republic of Belarus	0.68%	52,958	10	33,576	-	-	86,544
Due to banks	14.52%	747,123	200,540	441,982	1,971	-	1,391,616
Customer accounts	9.28%	666,402	1,407,452	1,281,687	2,258,848	935,534	6,549,923
Debt securities issued	9.38%	4,833	4,167	95,879	32,942	-	137,821
Total interest bearing liabilities at fixed rates		1,471,316	1,612,169	1,853,124	2,293,761	935,534	8,165,904
Due to the National Bank of the Republic of Belarus	13.77%	47,285	70,126	436,123	3,310,475	-	3,864,009
Due to banks	7.03%	53,598	74,032	487,696	1,702,593	814,190	3,132,109
Customer accounts	9.03%	1,328,819	77,878	222,752	1,829,340	-	3,458,789
Debt securities issued	17.18%	22,821	11,233	14,615	141	-	48,810
Total interest bearing liabilities at variable rates		1,452,523	233,269	1,161,186	6,842,549	814,190	10,503,717
Total interest bearing liabilities		2,923,839	1,845,438	3,014,310	9,136,310	1,749,724	18,669,621
Due to banks		4,871	-	-	-	-	4,871
Customer accounts		48,604	220	-	-	18	48,842
Other financial liabilities		12,124	1,713	6,579	945	4,604	25,965
Financial guarantee contracts and letters of credit		236,152	3,547	56,311	6,723	-	302,733
Commitments on loans and unused credit lines		664,687	9,955	30,016	1,130	-	705,788
TOTAL FINANCIAL LIABILITIES		3,890,277	1,860,873	3,107,216	9,145,108	1,754,346	19,757,820

	Weighted average nominal 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

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 2009 Total
FINANCIAL ASSETS:								
Due from banks	72,424	-	286	-	-	-	-	72,710
Loans to customers	984,389	1,936,818	4,550,286	4,535,135	5,307,646	175,464	-	17,489,738
Investments in securities available for sale	-	10,926	166,515	261,811	26,813	-	-	466,065
Total interest bearing assets	1,056,813	1,947,744	4,717,087	4,796,946	5,334,459	175,464	-	18,028,513
Cash and balances with the National Bank of the Republic of Belarus	295,560	-	-	-	-	-	-	295,560
Derivative financial instruments	106	-	9,427	10,393	-	-	-	19,926
Due from banks	9,070	-	-	-	-	-	-	9,070
Investments in securities available for sale	-	-	-	-	-	-	50,808	50,808
Other financial assets	5,553	150	262	496	790	371	-	7,622
TOTAL FINANCIAL ASSETS	1,367,102	1,947,894	4,726,776	4,807,835	5,335,249	175,835	50,808	18,411,499
FINANCIAL LIABILITIES:								
Due to the National Bank of the Republic of Belarus	72,307	15,146	232,124	2,234,900	-	-	-	2,554,477
Due to banks	780,754	236,058	801,793	1,269,950	562,118	-	-	3,650,673
Customer accounts	1,932,300	1,384,367	1,146,048	3,012,694	605,156	-	-	8,080,565
Debt securities issued	26,261	13,253	103,367	30,477	-	-	-	173,358
Total interest bearing liabilities	2,811,622	1,648,824	2,283,332	6,548,021	1,167,274	-	-	14,459,073
Due to banks	4,871	-	-	-	-	-	-	4,871
Derivative financial instruments	326	-	-	-	-	-	-	326
Customer accounts	48,604	220	-	-	18	-	-	48,842
Other financial liabilities	12,124	1,713	6,579	945	4,604	-	-	25,965
TOTAL FINANCIAL LIABILITIES	2,877,547	1,650,757	2,289,911	6,548,966	1,171,896	-	-	14,539,077
Liquidity gap	(1,510,445)	297,137	2,436,865	(1,741,131)	4,163,353			
Interest sensitivity gap	(1,754,809)	298,920	2,433,755	(1,751,075)	4,167,185			
Cumulative interest sensitivity gap	(1,754,809)	(1,455,889)	977,866	(773,209)	3,393,976			
Cumulative interest sensitivity gap as a percentage of total financial assets	(10%)	(8%)	5%	(4%)	18%			

	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%			

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 liabilities.

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 the following instruments:

- utilizes centralized approach to setting interest rates on major types of placed and attracted resources;
- applies where necessary floating interest rates linked 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. The sensitivity analysis below represents the effect of 5% increase/reduction in interest rates existing at the end of reporting period 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 2009		31 December 2008	
	Interest rate +5%	Interest rate -5%	Interest rate +5%	Interest rate -5%
Financial Assets:				
Due from banks	954	(954)	4,120	(4,120)
Loans to customers	344,308	(344,308)	279,298	(279,298)
Investments in securities available for sale	14,694	(14,694)	60,946	(60,946)
Financial Liabilities:				
Due to the National Bank of the Republic of Belarus	(123,400)	123,400	(46,180)	46,180
Due to banks	(114,580)	114,580	(72,347)	72,347
Customer accounts	(144,090)	144,090	(315,861)	315,861
Debt securities issued	(2,321)	2,321	(6,986)	6,986
Net impact on profit before income taxes	(24,435)	24,435	(97,010)	97,010

Impact on equity:

	31 December 2009		31 December 2008	
	Interest rate +5%	Interest rate -5%	Interest rate +5%	Interest rate -5%
Financial Assets:				
Investments in securities available for sale	(6,373)	6,992	(3,243)	3,532
Net impact on equity	(30,808)	31,427	(100,253)	100,542

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 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 of currency risk is performed with account of current situation in the currency market and utilizes approved methodology.

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

	BYR	USD 1USD= BYR 2,863	EUR 1EUR= BYR 4,106.11	RUB 1RUB= BYR 94.66	Other currencies	31 December 2009 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	193,354	59,982	27,110	14,328	786	295,560
Due from banks	-	8,599	53,624	18,614	943	81,780
Derivative financial instruments	19,926	-	-	-	-	19,926
Loans to customers	14,611,223	1,139,142	1,657,778	81,595	-	17,489,738
Investments in securities available for sale	516,873	-	-	-	-	516,873
Other financial assets	5,107	2,027	487	1	-	7,622
TOTAL FINANCIAL ASSETS	15,346,483	1,209,750	1,738,999	114,538	1,729	18,411,499
FINANCIAL LIABILITIES:						
Due to the National Bank of the Republic of Belarus	2,554,477	-	-	-	-	2,554,477
Due to banks	1,737,526	609,776	1,307,354	859	29	3,655,544
Derivative financial instruments	326	-	-	-	-	326
Customer accounts	6,359,897	993,023	681,862	94,545	80	8,129,407
Debt securities issued	46,605	53,044	71,954	1,755	-	173,358
Other financial liabilities	25,955	7	1	2	-	25,965
TOTAL FINANCIAL LIABILITIES	10,724,786	1,655,850	2,061,171	97,161	109	14,539,077
OPEN BALANCE SHEET POSITION	4,621,697	(446,100)	(322,172)	17,377	1,620	

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 2009:

	BYR	USD 1USD= BYR 2,863	EUR 1EUR= BYR 4,106.11	RUB 1RUB= BYR 94.66	Other currencies	31 December 2009 Total
Claims on forward contracts	-	71,001	55,432	-	-	126,433
Obligations on forward contracts	(84,014)	-	(11,743)	(16,909)	-	(112,666)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(84,014)	71,001	43,689	(16,909)	-	
TOTAL OPEN CURRENCY POSITION	4,537,683	(375,099)	(278,483)	468	1,620	

	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
Claims on forward contracts	-	532,400	184,628	10,707	-	727,735
Obligations on forward contracts	(729,408)	(6,600)	-	-	-	(736,008)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(729,408)	525,800	184,628	10,707	-	
TOTAL OPEN CURRENCY POSITION	3,536,236	74,251	(2,383)	9,805	1,004	

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. 10% 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 2009 and 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 rates of major foreign currencies used by te Group (US dollar, Euro and Russian rouble). 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 2009		**31 December 2008**	
	USD/BYR +10%	**USD/BYR -10%**	**USD/BYR +30%**	**USD/BYR -10%**
Impact on profit before taxation	(37,510)	37,510	22,275	(7,425)
Impact on equity	(37,510)	37,510	22,275	(7,425)
	EUR/BYR +10%	**EUR/BYR -10%**	**EUR/BYR +30%**	**EUR/BYR -10%**
Impact on profit before taxation	(27,848)	27,848	(715)	238
Impact on equity	(27,848)	27,848	(715)	238
	RUB/BYR +10%	**RUB/BYR -10%**	**RUB/BYR +30%**	**RUB/BYR -10%**
Impact on profit before taxation	47	(47)	2,942	(981)
Impact on equity	47	(47)	2,942	(981)

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 results should not be interpolated or extrapolated.

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. In case of negative fluctuations of securities market, 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 it can affect certain assets that are held at fair value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the 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. OPERATING ENVIRONMENT AND GLOBAL ECONOMIC CRISIS IMPACT

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

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

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

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

Devaluation of national currency – Effective from 2 January 2009, the National Bank has pegged the Belarusian Rouble to a currency basket, divided equally into US dollars, Euro and Russian roubles and announced the decline in value of Belarusian Rouble against these three currencies by approximately 20% in comparison to their individual exchange rates as at 31 December 2008. During the period of 2 January 2009 to 31 December 2009 Belarusian Rouble additionally weakened against the currency basket by 7.94%.

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

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

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

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

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

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

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