

Translation from the original in Russian

**Joint Stock Company
“Savings Bank ‘Belarusbank’”
Consolidated Financial Statements**

Year ended 31 December 2009

Together with Independent Auditors’ Report

Contents

Statement of management’s responsibilities for the preparation and approval of the consolidated financial statements

Independent auditors’ report

Consolidated income statement	5
Consolidated statement of comprehensive income	6
Consolidated statement of financial position	7
Consolidated statement of changes in equity	8
Consolidated statement of cash flows	9

Notes to consolidated financial statements

1. Principal activities	11
2. Basis of preparation	12
3. Summary of accounting policies	14
4. Net interest income	30
5. Allowance for impairment, other provisions	31
6. Net gain on foreign exchange operations	31
7. Fee and commission income and expense	32
8. Other income	32
9. Operating expenses	33
10. Income tax expenses	33
11. Cash, balances with the National Bank and precious metals	35
12. Amounts due from banks	35
13. Loans to customers	36
14. Securities available-for-sale	46
15. Investments in associate	47
16. Property and equipment	48
17. Intangible assets	49
18. Other assets	49
19. Amounts due to banks	50
20. Amounts due to customers	51
21. Debt securities issued	51
22. Other liabilities	52
23. Share capital	53
24. Financial commitments and contingencies	53
25. Related party disclosures	54
26. Segment analysis	57
27. Fair value of financial instruments	60
28. Capital management and regulatory matters	61
29. Risk management policies	62
30. Economic environment and uncertainty	76
31. Events after the reporting period	77

JOINT STOCK COMPANY “SAVINGS BANK ‘BELARUSBANK”

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, is made with a view to distinguishing the respective responsibilities of the independent auditors and those of management in relation to the consolidated financial statements of Joint Stock Company “Savings Bank ‘Belarusbank” and its subsidiaries (the “Group”).

The Group’s 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:

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

Management is also responsible for:

- designing, implementing and maintaining an effective and reliable system of internal control throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Belarus;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud, errors and other irregularities.

The present consolidated financial statements for the year ended 31 December 2009 were authorised for issue on 30 April 2010 by the Management Board of the Bank.

On behalf of the Management Board:

N. A. Ermakova
Chairlady of the Management Board



I. P. Lisokovskaya
Chief accountant



Independent auditors' report

To the Shareholders, Supervisory Board and Management Board of Joint Stock Company "Savings Bank 'Belarusbank'"

We have audited the accompanying consolidated financial statements of the Joint Stock Company "Savings Bank 'Belarusbank'" and its subsidiaries (hereinafter - the "Group") which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 of the Group 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

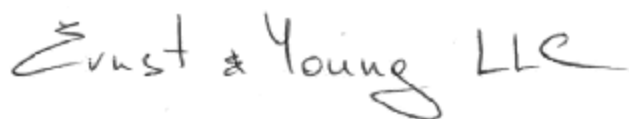
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Group, as well as evaluating the overall presentation of the financial statements.

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

Opinion


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




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	3,726,205	1,941,366
Interest expense	4	(2,652,273)	(1,377,385)
Gain/(loss) on initial recognition of financial instruments at fair value, net	4	31,515	(57,339)
Gain on early repayment of loans issued at below market rate	4	12,310	68,248
NET INTEREST INCOME BEFORE ALLOWANCE FOR LOAN IMPAIRMENT		1,117,757	574,890
Allowance for impairment of loans and amounts due from banks	5	(348,852)	(100,441)
NET INTEREST INCOME		768,905	474,449
Net gain on securities available-for-sale		95	569
Net gain on foreign exchange operations	6	280,196	239,168
Fee and commission income	7	474,019	431,063
Fee and commission expense	7	(124,357)	(61,106)
Share in net profit of associate	15	4,313	2,050
Other income	8	102,532	88,426
NET NON-INTEREST INCOME		736,798	700,170
OPERATING INCOME		1,505,703	1,174,619
OPERATING EXPENSES	9	(988,381)	(901,968)
OPERATING PROFIT		517,322	272,651
Allowance for impairment of other assets and securities available-for- sale	5	(165)	(2,604)
Recovery of provision/ (provision) for guarantees and commitments	5	2,402	(16,004)
PROFIT BEFORE INCOME TAX EXPENSE		519,559	254,043
Income tax expense	10	(100,467)	(69,107)
NET PROFIT		419,092	184,936
Attributable to:			
- Shareholders of the Bank		419,795	185,394
- Non-controlling interest		(703)	(458)
		419,092	184,936

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


 N.A. Ermakova.
 Chairlady of the Management Board
 30 April 2010

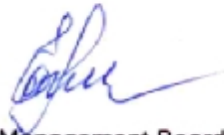

 I.P. Lisokovskaya
 Chief accountant

The accompanying notes on pages 11 to 77 are an integral part of these consolidated financial statements.


Consolidated statement of comprehensive income**For the year ended 31 December 2009***(in millions of Belarusian roubles)*

	Note	Year ended 31 December 2009	Year ended 31 December 2008
Profit for the year		419,092	184,936
Other comprehensive income			
Gains/(losses) from revaluation of securities available-for-sale		(35,220)	7,948
Deferred income tax relating to components of other comprehensive income	10	<u>(2,651)</u>	<u>(2,089)</u>
Other comprehensive income/(losses) for the year, net of tax		<u>(37,871)</u>	<u>5,859</u>
Total comprehensive income for the year		<u>381,221</u>	<u>190,795</u>
Attributable to:			
- Shareholders of the Bank		381,924	191,253
- Non-controlling interest		<u>(703)</u>	<u>(458)</u>
		<u>381,221</u>	<u>190,795</u>

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



N.A. Ermakova.
Chairlady of the Management Board
30 April 2010





I.P. Lisokovskaya
Chief accountant

Consolidated statement of financial position**For the year ended 31 December 2009***(in millions of Belarusian roubles)*

	Notes	31 December 2009	31 December 2008
ASSETS:			
Cash, balances with the National Bank and precious metals	11	999,689	2,487,090
Amounts due from banks	12	952,631	916,696
Loans to customers	13	23,962,849	15,732,121
Securities available-for-sale	14	473,026	1,619,540
Investments in associate	15	14,395	10,558
Property and equipment	16	803,779	674,473
Intangible assets	17	40,184	29,303
Government grants	13	4,733,201	2,607,049
Prepaid income tax		12,176	20,932
Deferred income tax asset	10	44,697	-
Other assets	18	483,061	206,788
TOTAL ASSETS		32,519,688	24,304,550
LIABILITIES AND EQUITY:			
LIABILITIES:			
Amounts due to banks	19	6,859,576	2,795,989
Amounts due to customers	20	21,899,050	18,469,428
Debt securities issued	21	925,664	362,901
Current income tax liability		18,631	4,840
Deferred tax liabilities	10	32,596	2,089
Other liabilities	22	182,265	111,061
Total liabilities		29,917,782	21,746,308
EQUITY:			
Share capital	23	1,980,923	1,980,923
Treasury shares		(3,214)	(3,229)
Revaluation reserve on securities available-for-sale		(32,012)	5,859
Retained earnings		653,716	571,493
Total equity attributable to shareholders of the Bank		2,599,413	2,555,046
Non-controlling interest		2,493	3,196
Total equity		2,601,906	2,558,242
TOTAL LIABILITIES AND EQUITY		32,519,688	24,304,550

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


 N.A. Ermakova.
 Chairlady of the Management Board
 30 April 2010


 I.P. Lisokovskaya
 Chief accountant

Consolidated statement of changes in equity**For the year ended 31 December 2009***(in millions of Belarusian roubles)*

	Notes	Share capital	Treasury shares	Retained earnings	Revaluation reserve on financial assets available-for-sale	Total equity attributable to shareholders of the Bank	Non-controlling interest	Total equity
31 December 2007		1,330,923	(3,270)	398,096	-	1,725,749	3,654	1,729,403
Total comprehensive income for the year		-	-	185,394	5,859	191,253	(458)	190,795
Issue of share capital	23	650,000	-	-	-	650,000	-	650,000
Sale of treasury shares		-	41	14	-	55	-	55
Dividends declared		-	-	(12,011)	-	(12,011)	-	(12,011)
31 December 2008		1,980,923	(3,229)	571,493	5,859	2,555,046	3,196	2,558,242
Total comprehensive income for the year		-	-	419,795	(37,871)	381,924	(703)	381,221
Distribution of equity to the Government of the Republic of Belarus - Issue of loans at below market rates	23	-	-	(323,341)	-	(323,341)	-	(323,341)
Sale of treasury shares		-	15	5	-	20	-	20
Dividends declared	23	-	-	(14,236)	-	(14,236)	-	(14,236)
31 December 2009		1,980,923	(3,214)	653,716	(32,012)	2,599,413	2,493	2,601,906

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 tax		519,559	254,043
Adjustments for:			
Allowance for impairment of loans to customers and banks		348,852	100,441
Other impairment and provisions (reversals)		(2,237)	18,608
(Gain)/Loss on initial recognition of financial instruments at fair value		(31,515)	57,339
Recovery of interest income and expenses on financial instruments issued on non-market terms, net		(233,868)	(73,369)
Amortisation of property and equipment and intangible assets		77,208	74,388
Impairment of property and equipment		-	4,451
Excess of the fair value of net assets over acquisition cost		-	(10,099)
Gain on disposal of property, equipment and intangible assets		(1,576)	(4,433)
Share in net profit of associate		(4,313)	(2,050)
Dividends received		(92)	(47)
Foreign exchange translation differences, net		191,858	(13,458)
Net change in accrued income and expenses		(14,888)	7,438
Cash flows from operating activities before changes in operating assets and liabilities		848,988	413,252
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets, net:			
Minimum obligatory reserve with the National Bank		98,290	34,593
Precious metals		919	(507)
Amounts due from banks		(236,275)	(274,832)
Loans to customers		(9,654,341)	(5,902,311)
Other assets		(278,763)	(46,457)
Increase in operating liabilities, net:			
Amounts due to banks		4,049,400	790,407
Amounts due to customers		1,909,251	6,565,502
Other liabilities		71,927	(10,444)
Cash (outflows)/inflows from operating activities before income tax		(3,190,604)	1,569,203
Income tax paid		(94,761)	(89,341)
Net cash (used in)/from operating activities		(3,285,365)	1,479,862
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(224,995)	(249,985)
Dividends received		568	575
Proceeds on sale of property, equipment and intangible assets		14,852	16,765
Sale of securities available-for-sale		1,244,002	3,851,914
Purchase of securities available-for-sale		(143,856)	(3,653,561)
Net cash used in investing activities		890,571	(34,292)

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 to the shareholders of the Bank		(14,236)	(12,011)
Proceeds from issue of debt securities		2,594,713	658,638
Purchase and redemption of issued debt securities		(2,068,461)	(508,307)
Sale of treasury shares		20	55
		<u>512,036</u>	<u>138,375</u>
Net cash from financing activities		512,036	138,375
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,882,758)	1,583,945
Effect of exchange rates changes on cash and cash equivalents		295,056	(5,467)
CASH AND CASH EQUIVALENTS, 1 January	11	<u>2,432,533</u>	<u>854,055</u>
CASH AND CASH EQUIVALENTS, 31 December	11	<u>844,831</u>	<u>2,432,533</u>

Interest paid and received by the Group during the year ended 31 December 2009 amounted to BYR 2,579,544 million and BYR 3,481,019 million, respectively.

Interest paid and received by the Group during the year ended 31 December 2008 amounted to BYR 1,374,442 million and BYR 1,944,414 million, respectively.

(in millions of Belarusian roubles unless otherwise stated)

1. Principal activities

Joint Stock Company "Savings Bank 'Belarusbank'" ("the Bank") was established on 27 October 1995 as a result of a merger of the State Savings Bank of the Republic of Belarus and the Commercial Bank "Belarusbank". The Bank is incorporated in the Republic of Belarus as a joint stock company "Savings Bank 'Belarusbank'". The Bank's activities are regulated by the National Bank of the Republic of Belarus (the "National Bank"). The Bank operates under #1 licence to engage in banking activities issued on 28 August 2008.

The Bank is primarily engaged in attracting deposits, granting loans using its own and attracted funds, foreign exchange transactions, payment settlements and securities trading.

Most banking operations relate to implementation of state programmes of the Government of the Republic of Belarus, including granting loans on preferential terms to both individuals and legal entities.

A four-tier structure of the Bank includes the head office located in Minsk; 6 regional offices, 65 branches, 71 centres for banking services and 1,841 outlets. The Bank also has 4 representative offices in the Russian Federation, Poland, Germany and the People's Republic of China. The Bank's legal address: 32 Myasnikova Street, Minsk, Republic of Belarus.

The Bank is a parent company of a group (the "Group"), which consists of the following subsidiaries:

Name	Country of operation	The Bank's ownership interest/voting rights, %		Type of operation
		2009	2008	
PUE "ASB Leasing"	Belarus	100%	100%	Finance leases
PUE "ASB Gorodets"	Belarus	100%	100%	Agriculture
PUE "ASB Teterino"	Belarus	100%	100%	Agriculture
PUE "ASB Pervaya Vesna"	Belarus	100%	100%	Agriculture
PUE "ASB Sanatoriy Sputnik"	Belarus	100%	100%	Recreation facility
Private enterprise "ASB Recreation Centre Solnechnyy"	Belarus	100%	100%	Recreation facility
Private enterprise "ASB Novator"	Belarus	100%	100%	Agriculture
JSC "Elitparket"	Belarus	88.39%	88,39%	Woodworking
Private enterprise "ASB Integrated Directory of Reconstruction and Development"	Belarus	100%	100%	Building and reconstruction

The Bank has an investment in the following associate:

Name	Country of operation	The Bank ownership interest/voting rights, %		Type of operation
		2009	2008	
JSC "Banking Processing Centre"	Belarus	49.28%	49.28%	Processing of operations with plastic cards

(in millions of Belarusian roubles unless otherwise stated)

1. Principal activities (continued)

As of 31 December 2009 and 2008, the structure of the Bank's share capital was the following:

Shareholder	2009, %	2008, %
State Property Committee of the Republic of Belarus	85.70	85.70
Minsk City Executive Committee	4.83	4.83
Brest Region Executive Committee	1.73	1.73
Minsk Region Executive Committee	1.61	1.61
Gomel Region Executive Committee	1.60	1.60
Vitebsk Region Executive Committee	1.47	1.47
Grodno Region Executive Committee	1.22	1.22
Mogilev Region Executive Committee	1.13	1.13
Shklov District Executive Committee	0.54	0.54
Other	0.17	0.17
Total	100.00	100.00

These consolidated financial statements were authorised for issue by the Bank's management on 30 April 2010.

As of 31 December 2009, members of the Supervisory Board and Management Board controlled 5,636 shares (0.0002%) (2008: 2,886 or 0.0001%) of the Bank.

2. Basis of preparation

General

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

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

These consolidated financial statements are presented in millions of Belarusian roubles ("BYR million"), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of certain financial instruments.

Inflation accounting

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

Key assumptions

The preparation of consolidated financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of income and expenses during the reporting period. The estimates and associated assumptions are based on past experience and other factors that are considered to be reasonable under the current circumstances, and the results of which form the basis for judgements on carrying values of assets and liabilities and the information on which is not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from these estimates. Estimates that are particularly susceptible to change relate to the allowance for impairment and measurement at fair value of financial instruments.

At the reporting date, the key assumptions and estimates concerning future and other key sources of estimation uncertainty at the balance sheet date that have a risk of causing a material adjustment within the next financial period affect the following accounts:

*(in millions of Belarusian roubles unless otherwise stated)***2. Basis for preparation (continued)**

	31 December 2009	31 December 2008
Allowance for impairment of loans to customers	563,262	270,610
Allowance for impairment of loans to banks	7,757	-
Provision for guarantees and commitments	25,999	28,401
Equity investments available for sale	20,429	10,292
Derivative financial instruments (asset)	288,890	31,576
Derivative financial instruments (liability)	369	14
Unrecognised deferred tax assets	170,266	181,857

Loans to customers are initially measured at fair value. The estimation of the fair value of loans involves the exercise of significant judgement. The Group estimates market interest rates for different types of loans. Alternative financial instruments with similar characteristics are used to estimate fair value of some of the loans.

Loans to customers are subsequently measured at amortised cost less allowance for impairment. The estimation of allowance for impairment involves the exercise of significant judgement. The Group estimates the allowance for impairment with the objective of maintaining it at a level that is considered by the Group's management to be sufficient to cover credit losses. The calculation of the allowance on impaired loans is based on the probability of the asset being written-off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on past experience and are supported by the Group's management judgement.

The Group considers accounting estimates relating to the allowance for loan impairment to be a key source of estimation uncertainty because: (i) they are highly susceptible to change over time as forecasting of future cash flows on loan impairment is based on recent performance of the Group, and (ii) in the event of a significant difference between the Group's estimation and the actual amount of allowance for impairment, the Group may need to create an additional allowance that could have a material impact on the Group's financial performance in future. The Group's estimates of cash flows on impaired loans are based on an analysis of a borrower's performance in the past, prior relations with the borrower, their creditworthiness and the current economic environment, which are not necessarily an indication of future losses.

Investments available-for-sale are initially recognised and subsequently measured at fair value. Investments in equity instruments in the Group's portfolio do not have market quotes.

The relatively low volume of transactions with certain types of financial instruments in the financial markets of the Republic of Belarus leads to the application of judgement to an understanding of market information for the purpose of fair value estimation. The absence of available market information and reliable basis for fair value estimation due to the fact that certain types of financial instruments are not traded in the financial markets of the Republic of Belarus or the markets are not active, means that the results of the valuation models applied may differ from the actual value of the financial instruments.

Derivative financial instruments are foreign currency forwards that do not have an active market and are measured using an interest rates parity model. Fair value is determined using, as inputs, interbank market rates applicable for each currency and exchange rates existing in the Republic of Belarus. The calculation is based on the assumption that these factors provide a reliable basis for the assessment of a fair forward rate. These determinations are supplemented by the application of management judgement.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Estimation of probabilities is based on management's estimation of future taxable profit and involves the exercise of significant judgement of the Group's management. Taxation is discussed in Notes 3 and 10.

Functional currency

The functional currency of these consolidated financial statements is the Belarusian rouble ("BYR").

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Group (its subsidiaries) prepared as of 31 December each year. Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

All business combinations are accounted for by applying the purchase method.

On acquisition, assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the Group's interest in the fair values of the identifiable net assets acquired is recognised as goodwill. When the Group's interest in the fair value of the identifiable net assets acquired exceeds the cost of acquisition, after reassessment of their identifiability and cost of acquisition, the related excess is directly recognised in the consolidated income statement for the reporting period.

Non-controlling interest is the interest in subsidiaries not held by the Bank. Minority interest at the reporting date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Non-controlling interest is presented within equity.

Losses allocated to non-controlling interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Income and expenses of subsidiaries for the year are included into the consolidated income statement from the date of acquisition till the date of disposal, as appropriate.

Where necessary, the financial statements of subsidiaries have been adjusted to ensure consistency with the accounting policies adopted by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the consolidated income statement, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

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

Date of recognition

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

'Day 1' profit

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale.

Loans and receivables granted by the Group are initially recognised at fair value plus directly attributable transaction costs.

The difference between the amount of cash consideration given and the fair value of loans issued at a below market interest rate is recognised in the consolidated income statement as 'Loss on initial recognition of financial instruments issued at fair value'. The loans are discounted at approximate market rates at the date of issue.

The fair value of commitments to issue loans at below market interest rates is calculated as the difference between the nominal amount of the loan commitment and the discounted future cash flows at the expected 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 recognised in the consolidated income statement.

Subsequently, loans to customers are measured at amortised cost using the effective interest rate method. Loans to customers are carried net of allowance for impairment, if any.

Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Available-for-sale securities

Securities 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. Such re-measurement is recognised directly in other comprehensive income until the securities are sold when the gain/loss previously recorded in other comprehensive income recycles through the consolidated income statement. Impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest rate method are recognised directly in the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group’s securities available-for-sale. Accrued interest receivable is included in the market price of the securities. If such quotes do not exist, valuation techniques are used. Dividends received are included in other income in the consolidated income statement.

Unquoted debt and equity securities are stated at amortised cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

Determination of fair value

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

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

Offsetting

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

Reclassification of financial assets

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of the Republic of Belarus, excluding obligatory reserves, and amounts due from banks that mature within ninety days of the date of origination and are free from contractual encumbrances.

Precious metals

Assets and liabilities in precious metals are recorded at the National bank of the Republic of Belarus bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the values of precious metals rates are recorded as “Other income” in the consolidated income statement.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Amounts due from banks

Balances due from banks represent amounts placed by the Group with counterparty banks. Balances due from banks with a fixed maturity are subsequently measured at amortised cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Balances due from banks are usually not secured by collateral. Amounts due from banks are carried net of allowance for impairment, if any. The principles of impairment assessment and calculation of the related allowance are described below.

Repurchase and reverse repurchase agreements

The Group enters into sale and repurchase agreements ("repos") and purchase and re-sale agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are used by the Group for liquidity management and securities trading.

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

Assets purchased under reverse repos are recorded in the consolidated financial statements as a deposit collateralised by securities in '*Amounts due from banks*'.

When assets purchased under reverse repos are sold to third parties, the results are recorded with the gain or loss included in net gains/losses on the respective assets. Any related income or expense arising from the difference between purchase and sale price of the underlying assets is recognised as interest income or expense using the effective interest rate method.

Derivative financial instruments

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

Derivative financial instruments are initially recorded and subsequently measured at fair value. Fair values are obtained from the interest rates parity model. Most of the derivatives, into which the Group enters, are of a short-term nature. The results of the valuation of derivatives are reported in assets (sum of positive values) or liabilities (sum of negative values), respectively. Gains and losses resulting from valuation of these instruments are recognised in the consolidated income statement for the year in which they arise under '*Net gain on foreign exchange operations*'.

Borrowings

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

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Government grants

Government grants in the form of a non-financial asset receivable from the government are recognised at the present value of discounted future cash flows in respect of compensation of interest income. The loss on initial recognition of loans issued at below market rate is recognised in the income statement net of gains on government grants.

Receivables on government grants are subsequently measured at amortised cost using the effective interest rate method and are tested for impairment with subsequent recognition of gains (losses) in the income statement if the instrument was derecognised or impaired as well as through the amortisation process.

Write-off of loans

Loans are written off against the allowance for impairment in the event of uncollectibility, 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 including sale of all available collateral. The decision to write off bad debt against the allowance for impairment is made by the Head of the Bank; the decision on off-balance sheet accounts write off is approved by the Management Board of the Bank and the Supervisory Board.

Impairment of financial assets

The Group establishes at each reporting date whether there is any objective evidence of impairment of a financial asset or a group of financial assets. Impairment loss is recognised when it is incurred as a result of one or more events (a "loss event") that occurred after the initial recognition of the asset and that have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

Loss events include:

- deterioration of the borrower's financial position, including events when it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider (e.g. prolongation and rescheduling of payments);
- growth of overdue payments in a group of financial assets;
- unfavourable macroeconomic changes correlating with an occurrence of overdue payments or defaults in a group of financial assets, e.g. growth of energy prices, inflation in excess of planned indicators, decrease of real income of population, growth of unemployment rate etc.

The Group reviews its financial assets to assess impairment as of each reporting date and uses its experienced judgment to adjust observable data for a group of financial assets to reflect current circumstances. Due to possible differences between loss estimates and actual loss experience the methodology and assumptions used for financial assets impairment assessment are reviewed regularly to reduce such differences.

Amounts due from banks and loans to customers

For amounts due from banks and loans to customers recognised at amortised cost, losses expected as a result of future events, irrespective of their probability, are not recognised. Allowances are made as a result of an individual assessment of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant. If no objective evidence of impairment is identified for an individually assessed financial asset, it is included in a group of financial assets with similar credit risk characteristics and the Group collectively assesses them for impairment.

Assessment of the impairment of group of financial assets is based on historical information on loss events for each group of financial assets and recovery of overdue assets. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Impairment loss is recognised through an allowance to reduce the carrying amount of financial assets to the present value of estimated future cash flows (excluding future credit losses that have not been incurred).

Impairment is recognised using an allowance account. Changes in allowances for impairment are recognised in the consolidated income statement.

For financial assets which are carried at amortised cost, the allowance for impairment is measured as the difference between carrying amount and the present value of expected future cash flows, estimated considering their probability, discounted at the financial asset's original effective interest rate. If a financial asset is secured, amounts recoverable from guarantees and collateral less sales costs are included in the discounted future cash flow estimate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment was reversed. The amount of the reversal is recognised in the consolidated income statement.

For financial assets carried at cost the allowance for impairment is 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 for a similar financial asset. Such impairment losses are not reversed.

For financial assets that do not have fixed maturities, estimated future cash flows are determined and discounted using periods during which the Group expected to realise such financial asset.

Financial investments available-for-sale

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is reclassified from other comprehensive income to the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group's management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Finance leases

Financial leases are leases that transfer substantially all the risks and rewards inherent in ownership of an asset. Title may or may not be eventually transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if:

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

The Group as a lessor presents finance leases as loans and initially measures them at an amount equal to the net investment in the lease at the commencement of the lease term. Subsequently, the recognition of finance income is based on a pattern reflecting a constant rate of return on the Group's net investment in the finance lease. Initial direct costs are included in the initial measurement of the lease receivables.

At the commencement of the lease term, the Group as a lessee recognises finance leases as assets and liabilities in its consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant rate of interest on the remaining balance of the liability. Contingent rent payments are expensed in the periods in which they are incurred. Depreciation of the leased property is charged in accordance with the depreciation policy of the Group.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

Operating leases

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

The Group as a lessor presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset and recognises lease payments under operating leases as income over the lease term and includes it into other income.

The Group as a lessee recognises lease payments under operating leases as expenses on a straight-line basis over the lease term and includes them into operating expenses.

Derecognition of financial assets and liabilities

Financial assets

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

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

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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

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

Financial liabilities

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

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

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Property, equipment and intangible assets

Property, equipment and intangible assets, acquired after 1 January 2006 are carried at historical cost less accumulated depreciation and recognised 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 recognised impairment loss, if any.

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

Buildings	1 - 20%
Computers	10 - 33%
Motor vehicles	10 - 14%
Office equipment and fixtures	8 - 25%
Intangible assets	10 - 50%

Depreciation on assets under construction and those not brought in operation commences from the date the assets are available for use. Leasehold improvements are amortised over the shorter of the lease period and the useful economic life of the related leased asset.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they are to be included into fixed assets value.

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

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Property, equipment and intangible assets (continued)

The carrying amounts of property, equipment and intangible assets are reviewed to assess whether any impairment indications exist. In the event that the asset has no indicators of impairment the assessment is not performed, except for:

- intangible assets with indefinite useful life;
- intangible assets not ready for intended use;
- goodwill acquired as a result of a business combination.

For such assets the assessment is performed annually irrespective of the existence of impairment indicators. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount.

An impairment allowance is recognised in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment 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.

Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Taxation

Income tax expense represents current and deferred tax expense.

The current tax expense is based on taxable profit for the year and is computed in accordance with the legislation of the Republic of Belarus. 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 non-taxable or non-deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case deferred tax is also dealt with in equity.

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

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

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Taxation (continued)

Deferred tax assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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. The deferred income tax liability arising upon initial recognition of goodwill in business combinations is not recognised.

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.

Amounts due to banks and customers

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

Debt securities issued

Debt securities issued represent promissory notes, savings and deposit certificates and bonds issued by the Group. They are accounted for according to the same principles used for amounts due to banks and customers.

Provisions

Provisions are recognised 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 guarantee contracts

In course of its activities, the Group enters into financial guarantee contracts including banking guarantees and letters of credit, representing credit guarantees that provide for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument.

Such financial guarantee contracts issued are initially recognised at fair value. Subsequently they are measured at the higher of the amount recognised as a provision in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets" and the amount initially recognised less, where appropriate, cumulative amortisation of fee and commission income received.

Share capital

Contributions to share capital, made before 1 January 2006, are measured at their cost restated for inflation. Contributions to share capital, made after 1 January 2006 are measured at cost. Non-cash contributions are included into the share capital at the fair value of the contributed assets as of the contribution date. Gains and losses on sales of treasury shares are charged or credited to equity.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preference shares that are non-redeemable are classified as equity.

Dividends on ordinary shares are recognised in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Where the Bank or its subsidiaries purchase the Bank's shares, equity is reduced for the amount of consideration given including related costs net of income taxes before sale of these shares. When the shares are subsequently sold, the proceeds received are recognised in equity.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Retirement and other benefit obligations

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

Recognition of income and expense

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

Interest and similar income and expense

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

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

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated income statement when the related transactions are completed.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

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

► *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

*(in millions of Belarusian roubles unless otherwise stated)***3. Summary of accounting policies (continued)****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 foreign currencies are translated into roubles at the appropriate rate of exchange prevailing at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as net gains on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Rates of exchange

The exchange rates at 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

As at 30 April 2010, the exchange rates used by the Group were as follows: BYR/USD – 2,961; BYR/EUR – 3,908.82; BYR/RUB – 101.10.

Segment analysis

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses; and for which financial information is available and is regularly reviewed by the entity's chief operating decision maker (a person or a group of persons) responsible for making decisions about resources to be allocated to the segment and assess its performance. Financial information on operating segments should be prepared on the same basis as it is used by the Group when assessing the performance of operating segments and in decision making on resource allocation between operating segments.

Note 26 “Segment analysis” of these consolidated financial statements contains information relating to income and expenses, assets and other items of operating segments presented to the Bank’s decision-making bodies. In addition, the Group has presented a reconciliation of profit and loss before taxation of the reporting segments, as well as reconciliation of gross amount of segments’ assets to the total amount of the Group’s assets presented in these consolidated financial statements.

Adoption of new and revised International Financial Reporting Standards

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

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB’s annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 “Improvements to IFRS” did not have any impact on the accounting policies, financial position or performance of the Group, except for the amendment to IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, as described below.

IAS 20 has been amended to require that loans received from the government that have a below-market rate of interest be recognized and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognised in the statement of financial position. This benefit is accounted for in accordance with IAS 20. The amendment is applied prospectively to government loans received on or after 1 January 2009.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in two separate statements: income statement and statement of comprehensive income. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been provided by the Group as permitted by the transition provisions of the amendment.

IAS 23 "Borrowing Costs" (Revised)

A revised IAS 23 Borrowing costs was issued in March 2007, and became effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the standard can be adopted as a prospective change. No changes were made for borrowing costs incurred to 1 January 2009 that have been expensed. These amendments did not have any impact on the Group's consolidated financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments were issued in February 2008, and became effective for annual periods beginning on or after 1 January 2009. The amendments require puttable instruments that represent a residual interest in an entity to be classified as equity, provided they satisfy certain conditions. These amendments did not have any impact on the Group's consolidated financial statements.

Amendment to IFRS 2 "Share-based Payment" – Vesting Conditions and Cancellations

The amendment to IFRS 2 was issued in January 2008 and became effective for annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of vesting conditions and prescribes the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. These amendments did not have any impact on the Group's consolidated financial statements.

IFRIC 13 "Customer Loyalty Programmes"

IFRIC Interpretation 13 was issued in June 2007 and became effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation did not have any impact on the Group's financial statements as no such schemes currently exist.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Adoption of new and revised International Financial Reporting Standards (continued)

IFRIC 15 "Agreements for the Construction of Real Estate"

IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after 1 January 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. This interpretation did not have any impact on the Group's financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after 1 October 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Group's consolidated financial statements.

Amendments to IFRIC 9 "Reassessment of Embedded Derivatives"

The amendments require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The amendments are applicable for annual periods ending on or after 30 June 2009. The application of the amendment did not have a significant impact on the Group's consolidated financial statements as no reclassifications were made for instruments that contained embedded derivatives.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for transfers of assets from customers received on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. This interpretation did not have any impact on the financial position or performance of the Group as the Group has no transfers of assets from its customers.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

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

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

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

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that will affect the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards must be applied prospectively and will affect only future acquisitions and transactions with non-controlling interest.

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

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

The amendment to IFRS 2 was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

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

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

Improvements to IFRSs

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

- ▶ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.
- ▶ IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group will continue to disclose this information.
- ▶ IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- ▶ IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Group as the annual impairment test is performed before aggregation.

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

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

(in millions of Belarusian roubles unless otherwise stated)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IAS 24 “Related party disclosures” (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Group is currently evaluating the impact of the adoption of this Standard and is considering the initial application date.

IFRS 9 “Financial Instruments”

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

IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”

IFRIC Interpretation 19 was issued on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010. IFRIC 19 clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. The Bank expects that this interpretation will have no impact on the Bank’s consolidated financial statements.

*(in millions of Belarusian roubles unless otherwise stated)***4. Net interest income**

Net interest income comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income		
Interest on loans to customers	3,507,026	1,767,095
Interest on securities available-for-sale	127,802	116,906
Interest on amounts due from banks	91,377	53,832
Other interest income	-	3,533
	<u>3,726,205</u>	<u>1,941,366</u>
Interest expense		
Interest on amounts due to customers	2,034,990	1,135,431
Interest on amounts due to banks	537,395	199,792
Interest on debt securities issued	79,833	42,109
Other interest expense	55	53
	<u>2,652,273</u>	<u>1,377,385</u>
Gain on initial recognition of financial liabilities at fair value	502,141	126,170
Loss on initial recognition of financial assets at fair value	(470,626)	(183,509)
Gain on early repayment of loans	12,310	68,248
	<u>1,117,757</u>	<u>574,890</u>
Net interest income		

*(in millions of Belarusian roubles unless otherwise stated)***5. Allowance for impairment, other provisions**

Movements in the allowance for impairment of loans to customers and to banks were as follows:

	Loans to customers	Amounts due from banks	Total
31 December 2007	230,398	-	230,398
Allowance	100,441	-	100,441
Assets written off	(60,229)	-	(60,229)
	<u>270,610</u>	-	<u>270,610</u>
31 December 2008	270,610	-	270,610
Allowance	341,095	7,757	348,852
Assets written off	(48,443)	-	(48,443)
	<u>563,262</u>	<u>7,757</u>	<u>571,019</u>
31 December 2009	563,262	7,757	571,019

Movements in the allowance for impairment of securities available-for-sale and other assets were as follows:

	Securities available for sale	Other assets	Total
31 December 2007	188	7,370	7,558
Allowance	755	1,849	2,604
	<u>943</u>	<u>9,219</u>	<u>10,162</u>
31 December 2008	943	9,219	10,162
Allowance/(recovery of allowance)	(752)	917	165
	<u>191</u>	<u>10 136</u>	<u>10,327</u>
31 December 2009	191	10 136	10,327

Movements in provisions for guarantees and commitments were as follows:

	Guarantees and commitments
31 December 2007	12,397
Provision	16,004
	<u>28,401</u>
31 December 2008	28,401
Recovery of provision	(2,402)
	<u>25,999</u>
31 December 2009	25,999

Allowances for impairment of assets are deducted from the respective assets. Provisions for guarantees and commitments are recorded in other liabilities.

6. Net gain on foreign exchange operations

The net gain on foreign exchange operations comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Dealing, net	472,054	225,710
(Loss) / gain on translation differences, net	(191,858)	13,458
	<u>280,196</u>	<u>239,168</u>
Total net gain on foreign exchange operations	280,196	239,168

*(in millions of Belarusian roubles unless otherwise stated)***7. Fee and commission income and expense**

Fee and commission income and expense comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income:		
Customer settlement services	250,790	257,717
Plastic card operations	181,137	144,286
Foreign currency transactions	21,606	12,960
Off-balance sheet transactions	18,112	13,821
Other transactions	2,374	2,279
	<u>474,019</u>	<u>431,063</u>
Total fee and commission income		
Fee and commission expense:		
Banking operations	54,364	7,503
Plastic card operations	45,171	30,065
Other transactions	24,822	23,538
	<u>124,357</u>	<u>61,106</u>
Total fee and commission expense		

8. Other income

Other income comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Cash collection operations	31,429	28,572
Revenue from agricultural activities	24,941	19,191
Revenue from sales of goods, works, services of subsidiaries other than agricultural and recreational ones	8,569	7,092
Revenue from assets previously written-off	6,583	872
Penalties charged	5,491	3,679
Revenue from recreational activities	5,410	4,419
Results of transactions with precious metals	3,368	2,458
Gain on disposal of property, equipment and intangible assets	1,576	4,433
Dividend income	92	47
Excess of Group's interest in the net fair value of acquiree's net identifiable assets, liabilities and contingent liabilities over cost	-	10,099
Other Bank's income	5,791	4,378
Other income of subsidiaries	9,282	3,186
	<u>102,532</u>	<u>88,426</u>
Total other income		

*(in millions of Belarusian roubles unless otherwise stated)***9. Operating expenses**

Operating expenses comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Salary, bonuses and other employee benefits	464,891	405,858
Social security contributions	142,531	129,369
Depreciation and amortisation of property, equipment and intangible assets	77,208	74,388
Taxes, other than income tax	51,026	50,247
Operating leases	46,097	36,741
Payment system services	28,564	19,605
Payments to individuals deposits insurance fund	26,287	4,399
Property and equipment maintenance	24,163	22,733
Software expenses	11,122	8,978
Transportation expenses	9,964	8,902
Security expenses	9,372	8,975
Fees for professional services	8,134	5,701
Encashment expenses	7,681	8,301
Communication fees	7,012	6,050
Expenses from derecognition of government grants	4,583	56,924
Administrative expenses	3,030	7,554
Impairment of buildings	-	4,451
Other expenses	66 716	42 792
Total operating expenses	988 381	901,968

10. Income tax expense

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with Belarusian statutory tax regulations. During the years ended 31 December 2009 and 2008, the tax rate for Belarusian banks and enterprises was 24% for republican tax and 3% for municipal tax ("transport duty"). The rates were charged progressively. Therefore, in 2009 and 2008, the combined effective income tax rate was 26.28%. PUE "ASB Gorodets", PUE "ASB Novator", PUE "ASB Pervaya Vesna" and PUE "ASB Teterino" were not subject to income tax as the Bank's agricultural subsidiaries.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and tax exemptions for certain income.

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 of 31 December 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

*(in millions of Belarusian roubles unless otherwise stated)***10. Income tax expense (continued)**

Temporary differences as of 31 December 2009 and 2008 comprise:

	31 December 2009	31 December 2008
Deductible temporary differences:		
Allowance for impairment	95,557	42,123
Recognition of financial instruments at amortised cost	76,692	122,273
Property and equipment	32,370	24,050
Accrued bonus to employees	6,976	5,458
Provision for guarantees and commitments	5,621	7,066
Materials and prepaid expenses	4,862	4,128
Other differences	22,416	8,144
Deferred tax assets, gross	244,494	213,242
Unrecognised deferred tax assets	(170,266)	(181,857)
Total recognised deferred tax assets	74,228	31,385
Taxable temporary differences:		
Revaluation of securities available-for-sale	(4,740)	(2,089)
Accrued income	(26,976)	(24,385)
Derivatives revaluation	(30,411)	(7,000)
Total recognised deferred tax liabilities, gross	(62,127)	(33,474)
Off-set deferred tax assets and liabilities	29,531	31,385
Net recognised deferred tax assets	44,697	-
Net recognised deferred tax liabilities	(32,596)	(2,089)
Deferred income tax, net	12,101	(2,089)

Net deferred tax assets and liabilities relate to the consolidated amounts of income tax levied by different taxation authorities from different taxable entities.

The relationship between tax expense 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	519,559	254,043
Combined statutory tax rate	26.28%	26.28%
Income taxes at statutory rate	136,540	66,763
Tax effect of other permanent differences	(24,482)	(18,295)
Change in unrecognised deferred tax assets	(11,591)	20,639
Income tax expense	100,467	69,107

The composition of income tax expense for the years ended 31 December 2009 and 2008 was as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Current income taxes expense	117,308	69,107
Deferred income tax charge	(14,190)	2,089
Less: deferred income tax recognised in equity	(2,651)	(2,089)
Total income tax expense	100,467	69,107

*(in millions of Belarusian roubles unless otherwise stated)***11. Cash, balances with the National Bank and precious metals**

Cash, balances with the National Bank and precious metals comprise:

	31 December 2009	31 December 2008
Cash on hand	623,212	516,814
Balances on current accounts in the National Bank	10,332	1,504,922
Obligatory reserve deposits with the National Bank	361,297	459,587
Precious metals	4,848	5,767
Total cash, balances with the National Bank and precious metals	999,689	2,487,090

The balances on obligatory reserve deposit with the National Bank as of 31 December 2009 and 2008 represent the minimum reserve deposit. 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, balances with the National Bank and precious metals	999,689	2,487,090
Amounts due from banks with original maturity less than 90 days	211,287	410,797
	<u>1,210,976</u>	<u>2,897,887</u>
Less minimum reserve deposit with the National Bank	(361,297)	(459,587)
Less precious metals	(4,848)	(5,767)
Total cash and cash equivalents	844,831	2,432,533

12. Amounts due from banks

Amounts due from banks comprise:

	31 December 2009	31 December 2008
Loans to banks	783,757	758,254
Accounts with other banks	176,631	158,442
	<u>960,388</u>	<u>916,696</u>
Less allowance for impairment (Note 5)	(7,757)	-
Total amounts due from banks	952,631	916,696

As of 31 December 2009 and 2008, the accounts with other banks included amounts of BYR 2,262 million and BYR 1,738 million, respectively, placed as security against the Group's liabilities.

As of 31 December 2009, the Group had balances due from one bank of BYR 757,359 million which exceeded 10% of the Group's equity and represented a significant concentration.

*(in millions of Belarusian roubles unless otherwise stated)***13. Loans to customers**

Loans to customers comprise the following classes of assets:

	31 December 2009	31 December 2008
Loans and advances to corporate customers and entrepreneurs	15,387,406	8,613,253
Loans to individuals	6,500,597	5,133,415
Loans to state bodies	1,919,999	1,579,438
Net investment in finance leases	718,109	676,625
	<u>24,526,111</u>	<u>16,002,731</u>
Less allowance for impairment	(563,262)	(270,610)
Total loans to customers	<u>23,962,849</u>	<u>15,732,121</u>

Movements in allowances for impairment for the years ended 31 December 2009 and 2008 are disclosed in Note 5. Movements in allowances by class of loans are presented as follows:

	Loans and advances to corporate customers and entrepreneurs	Loans to individuals	Loans to state bodies	Net investment in finance leases	Total
31 December 2007	195,658	1,447	459	32,834	230,398
Assets written-off	(60,229)	-	-	-	(60,229)
Provision/(recovery of provision)	<u>113,944</u>	<u>(188)</u>	<u>3,605</u>	<u>(16,920)</u>	<u>100,441</u>
31 December 2008	249,373	1,259	4,064	15,914	270,610
Assets written-off	(47,079)	-	-	(1,364)	(48,443)
Provision/(recovery of provision)	<u>291,730</u>	<u>2,361</u>	<u>49,019</u>	<u>(2,015)</u>	<u>341,095</u>
31 December 2009	<u>494,024</u>	<u>3,620</u>	<u>53,083</u>	<u>12,535</u>	<u>563,262</u>

The analysis of loans and allowances for impairment by class of loans and assessment method as of 31 December 2009 is presented in the following table:

*(in millions of Belarusian roubles unless otherwise stated)***13. Loans to customers (continued)**

	Loans, gross	Allowance for impairment	Loans less allowance for impairment	Allowance for impairment as % of gross amount of loans
Loans and other active operations with corporate customers and entrepreneurs, including:	15,387,406	494,024	14,893,382	3.21%
Loans assessed individually, including:	9,625,539	405,192	9,220,347	4.21%
Not impaired, transferred to collective assessment, including	3,362,977	41,653	3,321,324	1.24%
past due	552,861	24,219	528,642	4.38%
not past due	2,810,116	17,434	2,792,682	0.62%
Not past due	6,015,159	275,800	5,739,359	4.59%
Past due	247,403	87,739	159,664	35.46%
Loans assessed collectively, including:	5,761,867	88,832	5,673,035	1.54%
Not impaired	88,480	-	88,480	0.00%
Not past due	5,004,809	69,907	4,934,902	1.40%
Past due	668,578	18,925	649,653	2.83%
Loans to individuals assessed collectively, including:	6,500,597	3,620	6,496,977	0.06%
Plastic card overdraft loans	59,940	860	59,080	1.43%
Consumer loans	1,293,824	577	1,293,247	0.04%
Residential loans	1,587,630	675	1,586,955	0.04%
Preferential residential loans	3,559,203	1,508	3,557,695	0.04%
Loans to state bodies, including:	1,919,999	53,083	1,866,916	2.76%
Loans assessed individually	1,550,728	53,025	1,497,703	3.42%
Loans assessed collectively	369,271	58	369,213	0.02%
Net investments in finance leases, including:	718,109	12,535	705,574	1.75%
Loans assessed individually	277,305	7,250	270,055	2.61%
Loans assessed collectively	440,804	5,285	435,519	1.20%
Total loans to customers	<u>24,526,111</u>	<u>563,262</u>	<u>23,962,849</u>	<u>2.30%</u>

*(in millions of Belarusian roubles unless otherwise stated)***13. Loans to customers (continued)**

The analysis of loans and allowances for impairment by class of loan and assessment method as of 31 December 2008 is presented in the following table:

	Loans, gross	Allowance for impairment	Loans less allowance for impairment	Allowance for impairment in % to gross amount of loans
Loans and other active operations with corporate customers and entrepreneurs, including:	8,613,253	249,373	8,363,880	2.90%
Loans assessed individually, including:	5,197,902	219,008	4,978,894	4.21%
Not impaired, transferred to collective assessment	2,567,570	25,170	2,542,400	0.98%
past due	306,274	8,118	298,156	2.65%
not past due	2,261,296	17,052	2,244,244	0.75%
Not past due	2,491,364	153,726	2,337,638	6.17%
Past due	138,968	40,112	98,856	28.86%
Loans assessed collectively, including:	3,415,351	30,365	3,384,986	0.89%
Not impaired	811,044	-	811,044	0.00%
Not past due	2,331,937	20,027	2,311,910	0.86%
Past due	272,370	10,338	262,032	3.80%
Loans to individuals assessed collectively, including:	5,133,415	1,259	5,132,156	0.02%
Plastic card overdraft loans	34,245	391	33,854	1.14%
Consumer loans	1,711,767	383	1,711,384	0.02%
Residential loans or other real estate objects financing	1,149,231	165	1,149,066	0.01%
Preferential residential loans	2,238,172	320	2,237,852	0.01%
Loans to state bodies, including:	1,579,438	4,064	1,575,374	0.26%
Loans assessed individually	1,319,008	4,060	1,314,948	0.31%
Loans assessed collectively	260,430	4	260,426	0.00%
Net investments in finance leases, including:	676,625	15,914	660,711	2.35%
Loans assessed individually	319,352	14,156	305,196	4.43%
Loans assessed collectively	357,273	1,758	355,515	0.49%
Total loans to customers	<u>16,002,731</u>	<u>270,610</u>	<u>15,732,121</u>	<u>1.69%</u>

As of 31 December 2009 and 2008, the Group had loans to 13 and 7 borrowers, respectively, exposure to which individually exceeded 10% of the Group's equity at the respective dates. These loans amounted to BYR 6,068,407 million and BYR 2,740,413 million, respectively.

As of 31 December 2009 and 2008, the carrying amount of loans whose terms were renegotiated and that would otherwise be past due or impaired comprised, BYR 153,341 million and BYR 89,114 million respectively.

*(in millions of Belarusian roubles unless otherwise stated)***13. Loans to customers (continued)**

The ageing analysis of past due loans to legal entities and finance leases as of 31 December 2009 is presented in the following table.

	31 December 2009			Allowance for impairment in % to gross amount of loans
	Loans, gross	Allowance for impairment	Loans less allowance for impairment	
Loans and other active operations with corporate customers and entrepreneurs, including:	915,981	106,664	809,317	11.64%
Less than 30 days	521,003	12,178	508,825	2.34%
1-3 months	71,263	5,489	65,774	7.70%
3-6 months	162,975	29,357	133,618	18.01%
6-12 months	92,965	36,129	56,836	38.86%
More than 1 year	67,775	23,511	44,264	34.69%
Loans to state bodies, including:	11,293	5	11,288	0.04%
Less than 30 days	11,293	5	11,288	0.04%
Net investments in financial lease, including:	25,562	2,739	22,823	10.72%
Less than 30 days	18,051	873	17,178	4.84%
1-3 months	1,228	29	1,199	2.36%
3-6 months	1,403	45	1,358	3.21%
6-12 months	4,238	1,741	2,497	41.08%
More than 1 year	642	51	591	7.94%

The ageing analysis of past due loans to legal entities and finance leases as of 31 December 2008 is presented in the following table.

	31 December 2008			Allowance for impairment in % to gross amount of loans
	Loans, gross	Allowance for impairment	Loans less allowance for impairment	
Loans and advances to corporate customers and entrepreneurs, including:	411,338	50,450	360,888	12.26%
Less than 30 days	307,866	12,699	295,167	4.12%
1-3 months	20,291	9,487	10,804	46.75%
3-6 months	7,243	3,588	3,655	49.54%
6-12 months	8,501	2,884	5,617	33.93%
More than 1 year	67,437	21,792	45,645	32.31%
Loans to state bodies, including:	484	-	484	-
Less than 30 days	484	-	484	-
Past due finance leases, including:	17,957	5,206	12,751	28.99%
Less than 30 days	6,605	80	6,525	1.21%
3-6 months	211	10	201	4.74%
More than 1 year	11,141	5,116	6,025	45.92%

*(in millions of Belarusian roubles unless otherwise stated)***13. Loans to customers (continued)**

The ageing analysis of past due loans to individuals as of 31 December 2009 is presented in the following table:

	31 December 2009			
	Loans, gross	Allowance for impairment	Loans less allowance for impairment	Allowance for impairment in % to gross amount of loans
Plastic card overdraft loans, including:				
Not past due	59,940	860	59,080	1.43%
Past due less 30 days	58,945	845	58,100	1.43%
Past due 30-90 days	1	-	1	0.00%
Past due over 90 days	448	7	441	1.56%
	546	8	538	1.47%
Consumer loans, including:				
Not past due	1,293,824	577	1,293,247	0.04%
Past due less 30 days	1,289,459	573	1,288,886	0.04%
Past due 30-90 days	1,980	2	1,978	0.10%
Past due over 90 days	1,052	1	1,051	0.10%
	1,333	1	1,332	0.08%
Residential loans or other real estate objects financing, including:				
Not past due	1,587,630	675	1,586,955	0.04%
Past due less 30 days	1,585,652	672	1,584,980	0.04%
Past due 30-90 days	1,751	1	1,750	0.06%
Past due over 90 days	175	1	174	0.57%
	52	1	51	1.92%
Preferential residential loans, including:				
Not past due	3,559,203	1,508	3,557,695	0.04%
Past due less 30 days	3,554,260	1,505	3,552,755	0.04%
Past due 30-90 days	3,470	1	3,469	0.03%
Past due over 90 days	1,031	1	1,030	0.10%
	442	1	441	0.23%
Total loans to individuals	6,500,597	3,620	6,496,977	0.06%

*(in millions of Belarusian roubles unless otherwise stated)***13. Loans to customers (continued)**

The ageing analysis of past due loans to individuals as of 31 December 2008 is presented in the following table:

	31 December 2008			
	Loans, gross	Allowance for impairment	Loans less allowance for impairment	Allowance for impairment in % to gross amount of loans
Plastic card overdraft loans, including:	34,245	391	33,854	1.14%
Not past due	33,463	382	33,081	1.14%
Past due less 30 days	370	4	366	1.08%
Past due 30-90 days	189	2	187	1.06%
Past due over 90 days	223	3	220	1.35%
Consumer loans, including:	1,711,767	383	1,711,384	0.02%
Not past due	1,709,853	371	1,709,482	0.02%
Past due less 30 days	1,124	7	1,117	0.62%
Past due 30-90 days	346	2	344	0.58%
Past due over 90 days	444	3	441	0.68%
Residential loans or other real estate objects financing, including:	1,149,231	165	1,149,066	0.01%
Not past due	1,148,557	165	1,148,392	0.01%
Past due less 30 days	581	-	581	-
Past due 30-90 days	11	-	11	-
Past due over 90 days	82	-	82	-
Preferential residential loans, including:	2,238,172	320	2,237,852	0.01%
Not past due	2,236,943	320	2,236,623	0.01%
Past due less 30 days	1,185	-	1,185	-
Past due 30-90 days	4	-	4	-
Past due over 90 days	40	-	40	-
Total loans to individuals	<u>5,133,415</u>	<u>1,259</u>	<u>5,132,156</u>	<u>0.02%</u>

The Group pledged residential loans extended to individuals as collateral for bonds issued by the Bank in 2007 (Note 21). As of 31 December 2009 and 2008, the carrying amount of such loans pledged was BYR 952,381 million and BYR 301,208 million, respectively.

*(in millions of Belarusian roubles unless otherwise stated)***13. Loans to customers (continued)**

The following table discloses the concentration analysis of loans and advances to corporate customers and entrepreneurs by sector of the economy as of 31 December 2009 and 2008:

	31 December 2009		31 December 2008	
	Loans, gross	As % to total	Loans, gross	As % to total
Manufacturing:	8,496,471	55.23%	4,765,560	55.33%
Mechanical engineering, equipment manufacturing, repairs	2,578,397	16.76%	1,226,388	14.25%
Food industry, excluding sugar industry	982,377	6.38%	655,255	7.61%
Oil, gas, fuel industry	941,013	6.12%	178,698	2.07%
Chemical industry	721,682	4.69%	389,294	4.52%
Cement industry, construction materials production	554,786	3.61%	153,484	1.78%
Sugar refining industry	549,502	3.57%	664,104	7.71%
Light industry	442,140	2.87%	169,994	1.97%
Metallurgy	394,938	2.57%	189,298	2.20%
Wood industry	288,948	1.88%	187,604	2.18%
Electrical energy industry	148,845	0.97%	121,747	1.41%
Other industry	893,843	5.81%	829,694	9.63%
Agriculture	1,846,229	12.00%	646,228	7.50%
Construction	1,090,651	7.09%	490,613	5.70%
Trade and catering	969,495	6.30%	561,951	6.52%
Transport and communications	509,609	3.30%	438,820	5.09%
Other	2,474,951	16.08%	1,710,081	19.86%
Total loans and other active operations with corporate customers and entrepreneurs	15,387,406	100%	8,613,253	100.0%

The following table discloses the concentration analysis of individually assessed loans and advances to corporate customers and entrepreneurs by sector of the economy as of 31 December 2009 and 2008:

*(in millions of Belarusian roubles unless otherwise stated)***13. Loans to customers (continued)**

	31 December 2009			Allowance for impairment as % to gross amount of loans
	Loans, gross	Allowance for impairment	Loans less allowance for impairment	
Manufacturing	3,577,851	283,414	3,294,437	7.92%
Mechanical engineering, equipment manufacturing, repairs	1,916,244	132,264	1,783,980	6.90%
Metallurgy	355,058	1,670	353,388	0.47%
Sugar refining industry	259,825	17,049	242,776	6.56%
Chemical industry	239,788	11,152	228,636	4.65%
Food industry, excluding sugar industry	192,945	48,525	144,420	25.15%
Light industry	117,844	19,671	98,173	16.69%
Oil, gas, fuel industry	115,035	356	114,679	0.31%
Electrical energy industry	101,720	1,133	100,587	1.11%
Wood industry	86,474	35,581	50,893	41.15%
Cement industry, construction materials production	44,012	9,066	34,946	20.60%
Other industry	148,906	6,947	141,959	4.67%
Agriculture	1,105,291	11,355	1,093,936	1.03%
Trade and catering	428,841	12,567	416,274	2.93%
Construction	259,611	3,331	256,280	1.28%
Transport and communications	246,523	15,957	230,566	6.47%
Other	644,445	36,915	607,530	5.73%
Total loans and other active operations with corporate customers and entrepreneurs assessed individually	6,262,562	363,539	5,899,023	5.80%

(in millions of Belarusian roubles unless otherwise stated)

13. Loans to customers (continued)

	31 December 2008			Allowance for impairment as % to gross amount of loans
	Loans, gross	Allowance for impairment	Loans less allowance for impairment	
Manufacturing	1,802,571	164,554	1,638,017	9.13%
Electrical energy industry	104,409	11,170	93,239	10.70%
Chemical industry	162,824	9,678	153,146	5.94%
Mechanical engineering, manufacturing, repairs, equipment	840,470	57,079	783,391	6.79%
Wood industry	75,293	19,561	55,732	25.98%
Light industry	27,350	2,418	24,932	8.84%
Food industry, excluding sugar industry	156,006	32,414	123,592	20.78%
Sugar industry	284,677	25,139	259,538	8.83%
Other industry	151,542	7,095	144,447	4.68%
Trade and catering	58,262	11,840	46,422	20.32%
Agriculture	247,172	2,388	244,784	0.97%
Transport and communications	38,986	3,375	35,611	8.66%
Construction	144,432	3,227	141,205	2.23%
Other	338,909	8,454	330,455	2.49%
Total loans and other active operations with corporate customers and entrepreneurs assessed individually	2,630,332	193,838	2,436,494	7.37%

Participation in State lending programmes

As of 31 December 2009 and 2008, the loan portfolio of the Group included preferential long-term residential loans issued to individuals under the State house lending programme. The loans were issued with a maturity of up to 20 years at a fixed interest rate of 5% per annum, or with a maturity of up to 40 years at a fixed interest rate of 3% per annum. The State compensates the Group for the difference between the loan rate and refinance rate of the National Bank plus 3%.

As of 31 December 2009 and 2008, the nominal amount and amortised cost of such loans were as follows:

	31 December 2009		31 December 2008	
	Nominal amount	Amortised cost	Nominal amount	Amortised cost
Compensated loans	6,795,347	3,088,189	4,255,168	2,051,547
Non-compensated loans	1,057,514	471,014	536,919	186,625
Total preferential mortgage loans	7,852,861	3,559,203	4,792,087	2,238,172

The actual dates of repayment of these loans can differ from those anticipated at their initial recognition. The resulting gain is recorded in the consolidated income statement as a gain on early repayment of loans issued at below market rate.

(in millions of Belarusian roubles unless otherwise stated)

13. Loans to customers (continued)

The Group also issued loans to legal entities at below market rates. The State compensates the Group for the difference between the loan rate and refinance rate of the National Bank plus 3% for a portion of such loans. As of 31 December 2009 and 2008, the nominal amount and amortised cost of the loans issued at below market rates were as follows:

Participation in State lending programmes (continued)

	31 December 2009		31 December 2008	
	Nominal amount	Amortised cost	Nominal amount	Amortised cost
Compensated loans	3,619,082	2,593,039	2,048,429	1,645,001
Non-compensated loans	4,063,486	3,710,774	1,208,970	1,037,862
Total loans issued to legal entities at below market interest rates	7,682,568	6,303,813	3,257,399	2,682,863

The credit quality of financial assets is managed by the Group's internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Group's credit rating system as of 31 December 2009 and 2008:

	31 December 2009					Past due, but not impaired on individual basis	Impaired on individual basis	Total 31 December 2009
	Neither past due, nor impaired on individual basis							
	Credit worthiness class 1	Credit worthiness class 2	Credit worthiness class 3	Credit worthiness class 4	Credit worthiness class not assigned			
Loans and advances to corporate customers and entrepreneurs	1,686,260	4,351,411	1,549,340	116,957	199,437	1,221,439	6,262,562	15,387,406
Loans to state bodies	996,627	672,923	-	-	157,240	11,293	81,916	1,919,999
Net investments in finance leases	31,072	306,053	41,983	423	59,483	27,154	251,941	718,109
Total loans to customers excluding individuals	2,713,959	5,330,387	1,591,323	117,380	416,160	1,259,886	6,596,419	18,025,514

(in millions of Belarusian roubles unless otherwise stated)

13. Loans to customers (continued)

31 December 2008						Past due, but not impaired on individual basis	Impaired on individual basis	Total 31 December 2008
Neither past due, nor impaired on individual basis								
	Credit worthiness class 1	Credit worthiness class 2	Credit worthiness class 3	Credit worthiness class 4	Credit worthiness class not assigned			
Loans and advances to corporate customers and entrepreneurs	1,699,664	2,777,422	782,900	34,992	109,299	578,644	2,630,332	8,613,253
Loans to state bodies	815,861	-	-	-	466,787	484	296,306	1,579,438
Net investments in finance leases	85,476	287,881	56,528	4,129	28,423	8,447	205,741	676,625
Total loans to customers	2,601,001	3,065,303	839,428	39,121	604,509	587,575	3,132,379	10,869,316

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

	31 December 2009	31 December 2008
Not later than one year	369,158	311,438
From one year to five years	485,404	508,283
More than five years	6,516	36,265
Minimum lease payments	861,078	855,986
Less unearned finance income	(142,969)	(179,361)
Net investment in finance lease	718,109	676,625
Not later than one year	305,289	246,320
From one year to five years	406,733	396,428
More than five years	6,087	33,877
Net investment in finance lease	718,109	676,625

14. Securities available-for-sale

Securities available-for-sale comprise:

	Annual interest rate	31 December 2009	Annual interest rate	31 December 2008
Long-term government bonds (GDO)	9.04%-13.5%	452,597	8.13%-12%	1,542,437
Short-term government bonds (GKO)		-	10.01% -10.27%	61,949
Shares		20,529		10,413
Other debt securities		91	14%-21%	5,684
		473,217		1,620,483
Less allowance for impairment		(191)		(943)
Total securities available for sale		473,026		1,619,540

*(in millions of Belarusian roubles unless otherwise stated)***14. Securities available-for-sale (continued)**

Long-term government bonds ("GDO") – Belarusian rouble nominated Government securities with original maturity of more than one year that are sold at a discount to face value or with a coupon interest rate that are issued by the Ministry of Finance. Short-term government bonds ("GKO") – Belarusian rouble denominated Government securities with maturities less than one year that are issued at a discount to face value by the Ministry of Finance.

As of 31 December 2009, included in securities available-for-sale were GDOs sold under repo agreements with other banks with a fair value of BYR 76,818 million and as of 31 December 2008, included in securities available-for-sale were GDOs sold under repo agreements with other banks with a fair value of BYR 637,760 million and GKO with the fair value of BYR 45,756 million (Note 19). All repurchase agreements have maturities within eleven months.

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

15. Investments in associate

The investments in associate comprise:

	Share, %	31 December 2009	Share, %	31 December 2008	Type of operation
JSC "Banking Processing Centre"	49.28%	14,395	49.28%	10,558	Processing of plastic card operations

The following table discloses the changes in the carrying amount of investments:

Investments in associate as of 31 December 2007	9,036
Share in profit of associate for the period from 1 January to 31 December 2008	2,050
Elimination of dividends from the associate received for the period from 1 January 2008 to 31 December 2008	(528)
Investments in associate as of 31 December 2008	10,558
Share in profit of associate for the period from 1 January to 31 December 2009	4,313
Elimination of dividends from the associate received for the period from 1 January 2009 to 31 December 2009	(476)
Investments in associate as of 31 December 2009	14,395

The following table summarises key financial information for JSC "Banking Processing Centre" as of 31 December 2009 and 2008 and for the years then ended:

	Total assets	Total liabilities	Revenue	Net profit
31 December 2008	30,423	14,360	24,435	4,159
31 December 2009	37,430	8,219	39,428	8,752

*(in millions of Belarusian roubles unless otherwise stated)***16. Property and equipment**

	Buildings	Computers	Vehicles	Office equipment and inventory	Capital investments	Total
At cost or at cost adjusted for inflation						
31 December 2007	363,319	105,133	43,935	287,482	34,763	834,632
Additions	37,720	12,474	12,361	83,362	61,219	207,136
Acquisition of subsidiary	22,906	-	466	8,218	-	31,590
Transfers from construction in progress	21,554	-	1,295	9,334	(32,183)	-
Disposals	(2,692)	(11,386)	(4,367)	(15,704)	-	(34,149)
31 December 2008	442,807	106,221	53,690	372,692	63,799	1,039,209
Additions	99 497	8 864	9 209	58 626	39 109	216 305
Transfers from capital investments	48 689	-	37	-	(48 726)	-
Disposals	(11 305)	(11 294)	(5 382)	(8 819)	-	(36 800)
31 December 2009	579 688	104 791	57 554	422 499	54 182	1 218 714
Accumulated depreciation						
31 December 2007	48,250	79,069	27,126	140,215	-	294,660
Charge for the period	7,133	13,020	5,708	47,170	-	73,031
Acquisition of subsidiary	10,917	-	155	3,361	-	14,433
Impairment of property	4,276	-	-	175	-	4,451
Disposals	(956)	(11,372)	(3,696)	(5,815)	-	(21,839)
31 December 2008	69,620	80,717	29,293	185,106	-	364,736
Charge for the period	11 410	14 723	7 997	39 624	-	73 754
Disposals	(597)	(11 276)	(5 143)	(6 539)	-	(23 555)
31 December 2009	80 433	84 164	32 147	218 191	-	414 935
Net book value						
31 December 2009	499 255	20 627	25 407	204 308	54 182	803 779
Net book value						
31 December 2008	373,187	25,504	24,397	187,586	63,799	674,473

*(in millions of Belarusian roubles unless otherwise stated)***17. Intangible assets**

	Intangible assets
At cost, adjusted for inflation	
31 December 2007	28,102
Additions	9,445
Disposals	(443)
	<hr/>
31 December 2008	37,104
Additions	14,366
Disposals	(866)
	<hr/>
31 December 2009	50,604
	<hr/>
Accumulated amortisation	
31 December 2007	6,865
Charge for the period	1,357
Disposals	(421)
	<hr/>
31 December 2008	7,801
Charge for the period	3,454
Disposals	(835)
	<hr/>
31 December 2009	10,420
	<hr/>
Net book value	
31 December 2009	40,184
	<hr/> <hr/>
Net book value	
31 December 2008	29,303
	<hr/> <hr/>

18. Other assets

Other assets comprise:

	31 December 2009	31 December 2008
Materials	48,171	30,559
Taxes prepaid, other than income tax	69,080	59,778
Inventory of the agricultural subsidiaries	22,855	19,932
Prepaid expenses and other receivables	29,875	33,868
Prepayments for capital investments	28,107	34,580
Fair value of derivative financial instruments	288,890	31,576
Property and equipment, purchased for transfer to finance lease	2,904	1,125
Repossessed collateral	232	234
Other	3,083	4,355
	<hr/>	<hr/>
	493,197	216,007
Less allowance for impairment	(10,136)	(9,219)
Total other assets	483,061	206,788
	<hr/> <hr/>	<hr/> <hr/>

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

As of 31 December 2009 and 2008, taxes prepaid, other than income taxes mainly include input value added tax balances relating to lease operations of the Group and inventory purchases of the subsidiaries.

*(in millions of Belarusian roubles unless otherwise stated)***18. Other assets (continued)**

As of 31 December 2009, derivative financial instruments comprise:

Foreign currency forward and swap contracts	Nominal (in units of currency to be purchased)	Fair Value	
		Asset	Liability
EUR/BYR	EUR 98,000,000	98,016	(18)
EUR/USD	EUR 2,040,000	-	(43)
USD/BYR	USD 691,235,459	190,874	(308)
Total derivative financial instruments		288,890	(369)

As of 31 December 2008, derivative financial instruments comprise:

Foreign currency forward and swap contracts	Nominal (in units of currency to be purchased)	Fair Value	
		Asset	Liability
CAD/USD	CAD 269,720	4	-
USD/CHF	USD 634,923	32	-
USD/BYR	USD 100,000,000	23,589	-
USD/EUR	USD 20,274,510	302	-
EUR/USD	EUR 600,000	4	(14)
EUR/BYR	EUR 80,000,000	7,645	-
Total derivative financial instruments		31,576	(14)

19. Amounts due to banks

Amounts due to banks:

	31 December 2009	31 December 2008
Loans from the National Bank	4,540,056	1,090,838
Loans from the National Bank under repurchase agreements	-	515,227
Correspondent account of the National Bank	96,833	48,208
Time deposits of commercial banks	2,108,726	960,322
Loans from commercial banks under repurchase agreements	87,606	160,736
Correspondent accounts and demand deposits of commercial banks	26,355	20,658
Total due to banks	6,859,576	2,795,989

As of 31 December 2009, included in amounts due from banks were loans received from the National Bank of the Republic of Belarus and commercial banks under repurchase agreements with maturities up to seven months. The fair value of short-term Government bonds pledged as collateral amounted to BYR 76,818 million and BYR 683,516 million, respectively (Note 14).

As of 31 December 2009 and 2008, included in time deposits of commercial banks were loans received under pledge agreements with banks (affiliate banks – resident) in respect of plastic card transactions amounting to BYR 2,121 million and BYR 6,835 million, respectively.

*(in millions of Belarusian roubles unless otherwise stated)***20. Amounts due to customers**

Amounts due to customers:

	31 December 2009	31 December 2008
Time deposits	13,225,361	11,861,294
Current accounts and deposits repayable on demand	8,673,689	6,608,134
Total customer accounts	<u>21,899,050</u>	<u>18,469,428</u>

As of 31 December 2009 and 2008, customer accounts amounting to BYR 414,812 million and BYR 286,707 million, respectively, were held as security against letters of credit issued by the Group and other transactions related to credit-related contingent liabilities.

Analysis by sector:	31 December 2009	31 December 2008
Individuals	10,056,595	7,717,508
Legal entities	5,259,680	4,846,940
Government and local authorities	6,582,775	5,904,980
Total customer accounts	<u>21,899,050</u>	<u>18,469,428</u>

As of 31 December 2009 and 2008, customer accounts of BYR 6,506,061 million (29.7%) and BYR 5,323,418 million (28.8%) respectively, were due to 7 customers, which represents significant concentration.

As of 31 December of 2009 and 2008, included in time deposits are deposits of individuals of BYR 8,766,114 million and BYR 6,483,920 million. In accordance with the Belarusian Banking Code, the Group is obliged to repay such deposits upon demand of a depositor. In the event that a term deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

21. Debt securities issued

Debt securities issued comprise:

	Annual interest rate	31 December 2009	Annual interest rate	31 December 2008
Bonds issued to legal entities	8,5%-18%	692,558	12.5%-13.7%	249,437
Bonds issued to individuals	8%-21,5%	231,776	6.5%-14%	106,028
Savings and deposit certificates	20%	1,330	8.5%-15%	7,432
Promissory notes		-		4
Total debt securities issued		<u>925,664</u>		<u>362,901</u>

Bonds issued to legal entities, are collateralised by mortgage loans issued to individuals (Note 13).

*(in millions of Belarusian roubles unless otherwise stated)***22. Other liabilities**

Other liabilities comprise:

	31 December 2009	31 December 2008
Payables to suppliers and contractors	15,968	13,968
Taxes payable, other than income taxes	11,215	17,382
Provision for guarantees and commitments	25,999	28,401
Salary and bonuses payable to employees	19,292	16,153
Commitments to issue loans at a below market rates	64,826	9,197
Accrued expenses	22,695	6,696
Amounts due to employees for unused vacation	693	1,172
Payables on finance lease transactions	1,048	934
Payables for construction in progress	29	826
Fair value of derivative financial instruments	369	14
Other	20,131	16,318
Total other liabilities	<u>182,265</u>	<u>111,061</u>

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

Nominal amounts and the fair value of derivative financial instruments are disclosed in Note 18.

(in millions of Belarusian roubles unless otherwise stated)

23. Share capital

As of 31 December 2009 and 2008, the authorised, issued and fully paid share capital of the Bank comprised 2,288,776,849 ordinary shares with a par value of BYR 1,000 each and 11,010 preference shares with a par value of BYR 1,000 each.

31 December 2009 and 2008, the number of treasury shares purchased by the Bank comprised 1,235,183 and 1,241,036 shares, respectively.

In 2008, the shareholders of the Group increased the share capital by BYR 650,000 million. The number of shares issued by the Group in 2008 was 6,500,000,000 ordinary shares.

During the year ended 31 December 2008, the State made a contribution into the share capital of the Bank of BYR 650,000 million under the obligatory condition that the Bank purchased coupon-bearing Government debt securities for the same amount at par. The fair value of the securities at the date of issue was equal to their nominal value. The cash inflow from the issue of shares and cash outflow from the purchase of securities in this transaction were of a transitory nature and are not reported gross for the purposes of the consolidated cash flow statement.

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

During 2009, the equity distribution to the State due to the recognition of credit commitments at fair value and adjustment upon initial recognition of loans granted at below-market rates under the governmental lending programmes for which the Group does not receive compensation comprised BYR 323,342 million.

24. Financial commitments and contingencies

To meet the needs of its customers, the Group uses financial instruments with different credit exposures, which are not reflected in the consolidated balance sheet.

The Group's maximum exposure to credit losses under contingent liabilities and commitments to extend credit, in the event of non-performance of 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 of 31 December 2009 and 2008, the nominal or contract amounts were:

	31 December 2009	31 December 2008
Contingent liabilities and credit commitments		
Guarantees	156,494	101,126
Letters of credit not secured by cash	1,866,416	827,578
Letters of credit secured by cash	392,011	251,670
Commitments on loans and undrawn credit lines	<u>2,144,680</u>	<u>2,141,879</u>
Total contingent liabilities and credit commitments	<u><u>4,559,601</u></u>	<u><u>3,322,253</u></u>

The Group has recognised provisions of BYR 25,999 million and BYR 28,401 million against commitments under guarantees given and unsecured letters of credit issued as of 31 December 2009 and 2008, respectively (see Note 5).

Capital commitments - As of 31 December 2009 and 2008, the Group had commitments for capital expenditures outstanding of BYR 160,532 million and BYR 176,159 million, respectively.

Operating leases - Where the Group is the lessee, the future minimum lease payments under non cancellable operating leases of buildings as of 31 December 2009 and 2008 are as follows:

*(in millions of Belarusian roubles unless otherwise stated)***24. Financial commitments and contingencies (continued):**

	31 December 2009	31 December 2008
Not later than one year	21,184	10,939
Later than one year but not later than five years	29,986	9,387
Later than five years	3,735	1,064
Total operating leases	54,905	21,390

Legal proceedings - From time to time and in the normal course of the business, claims against the Group are received from customers and counterparties. Management is of the opinion that the Group would not suffer any material loss as a result of such claims and accordingly no provision has been made in these consolidated financial statements.

25. Related party disclosures

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 holding companies, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Group; and that have joint control over the Group;
- b) Associates – entities that, while not controlled or jointly controlled by the Group, are subject to significant influence by it ;
- 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 every possible related party relationship, attention is focused on the substance of the relationship, and not merely the legal form. Information on related party transactions as of 31 December 2009 and 2008 in the Group's consolidated statement of financial position are presented below:

(in millions of Belarusian roubles unless otherwise stated)

25. Related party disclosures (continued)

	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
Balances with the National Bank	371,629	371,629	1,964,509	1,964,509
Due from banks	740,569	952,631	538,020	916,696
- State banks (under common control of the State)	740,569		538,020	
Loans to customers, gross	10,497,495	24,526,111	9,412,058	16,002,731
- State entities (under common control of the State)	10,488,083		9,403,069	
- associate	2,808		2,033	
- key management personnel of the Group	6,604		6,956	
Allowance for impairment on loans to customers	323,788	563,262	230,115	270,610
- State entities (under common control of the State)	323,739		230,075	
- key management personnel of the Group	49		40	
Securities available for sale	455,814	473,026	1,609,248	1,619,540
- State entities (under common control of the State)	455,814		1,609,248	
Investment in associate	14,395	14,395	10,558	10,558
Prepaid income tax	12,176	12,176	20,932	20,932
Other assets	357,819	483,061	91,012	206,788
- the National Bank (forward contracts)	288,739		31,234	
- state entities (under common control of the State) (taxes prepaid)	69,080		59,778	
Due to banks	4,771,037	6,859,576	1,689,717	2,795,989
- the National Bank	4,636,889		1,654,273	
- State banks (under common control of the State)	134,148		35,444	
Customer accounts	7,657,321	21,899,050	8,559,378	18,469,428
- State entities (under common control of the State)	7,648,848		8,552,825	
- associate	4,213		2,909	
- key management personnel of the Group	4,260		3,644	
Current income tax liability	18,631	18,631	4,840	4,840
Other liabilities	11,215	182,265	17,382	111,061
- State bodies (under common control of the State) (taxes payable)	11,215		17,382	
Contingent liabilities and credit commitments	1,318,243	4,559,601	1,210,446	3,167,864
- state entities (under common control of the State)	1,318,182		1,209,821	
- associate	61			
- key management personnel of the Group	-		625	
Provision for guarantees and commitments	7,549	25,999	19,981	28,401
- state entities (under common control of the State)	7,549		19,981	

(in millions of Belarusian roubles unless otherwise stated)

25. Related party disclosures (continued)

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

	31 December 2009		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	980,401	3,726,205	460,535	1,941,366
- State entities (under common control of the State)	979,225		459,739	
- associate	581		336	
- key management personnel of the Group	595		460	
Interest expense	1,049,058	2,652,273	398,203	1,377,385
- State entities (under common control of the State)	1,048,283		397,887	
- associate	480		93	
- key management personnel of the Group	295		223	
Allowance for impairment on interest-bearing assets	93,673	348,852	105,178	100,441
- State entities (under common control of the State)	93,664		105,139	
- key management personnel of the Group	9		39	
Fee and commission income	106,318	474,019	125,386	431,063
- State entities (under common control of the State)	106,248		125,014	
- associate	67		368	
- key management personnel of the Group	3		4	
Fee and commission expense	10,331	124,357	6,772	61,106
- State entities (under common control of the State)	3,323		3,599	
- associate	7,008		3,173	
Operating expenses	277,823	988,381	98,223	901,968
- State entities (under common control of the State)- taxes other than income tax	51,026		50,247	
- State entities (under common control of the State)- other expenses	194,123		33,539	
- associate	18,566		1,924	
- key management personnel of the Group (remuneration)	14,108		12,513	
Other income	23,409	102,532	47,677	88,426
- State entities (under common control of the State)	22,739		47,569	
- associate	669		108	
- key management personnel of the Group (remuneration)	1		-	
Provision/ (Recovery of provision) on off-balance sheet commitments	(12,432)	(2,402)	13,154	16,004
- State entities (under common control of the State)	(12,432)		13,154	
Income taxes expense	100,476	100,476	69,107	69,107
- State entities (under common control of the State)	100,476		69,107	

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

(in millions of Belarusian roubles unless otherwise stated)

26. Segment analysis

The Bank is organised into two operating segments:

Retail banking – principally, handling individual customers' deposits, and providing loans, currency transactions and operations with precious metals, cash and settlements operations, as well as the issue and maintenance of plastic cards to individuals.

Corporate banking – principally, handling deposits and issue of loans to legal entities and entrepreneurs, currency transactions, cash and settlements operations, issue and maintenance of plastic cards, provision of cash collection and valuables transportation services.

For the purpose of segment reporting, interest is allocated using direct method based on actual results of each segment.

For the years ended 31 December 2009 and 2008, income from State owned companies and regional executive authorities exceeds 10% of the Group's total income.

For the purpose of these consolidated financial statements, segment income for the year ended 31 December 2009 comprises interest and fee and commission income of BYR 2,389,229 million for corporate banking and BYR 1,421,615 million for retail banking, for the year ended 31 December 2008 comprises interest and fee and commission income of BYR 1,185,230 million for corporate banking and BYR 914,776 million for retail banking.

(in millions of Belarusian roubles unless otherwise stated)

26. Segment analysis (continued)

	Retail banking	Corporate banking	Other/ Unallocated	31 December 2009/Year ended 31 December 2009
Interest income	1,256,221	2,133,121	336,863	3,726,205
Interest expense	(1,176,613)	(966,373)	(509,287)	(2,652,273)
Gains/ (losses) on initial recognition of financial instruments at fair value	(29,524)	(219,786)	280,825	31,515
Gains on early repayment of preferential loans	12,310	-	-	12,310
Impairment allowance for loans and amounts due from banks	(2,361)	(338,734)	(7,757)	(348,852)
Gains less losses on foreign currencies transactions	138,424	65,140	76,632	280,196
Gains less losses on operations with securities available-for-sale	16	18,002	(17,923)	95
Fee and commission income	171,009	250,492	52,518	474,019
Fee and commission expense	(44,627)	(1,097)	(78,633)	(124,357)
Share in profit of associate	-	-	4,313	4,313
Other income	2,034	38,012	62,486	102,532
Operating income	326,889	978,777	200,037	1,505,703
Operating expenses	(29,515)	(109)	(958,757)	(988 381)
Provision for other assets and securities available-for-sale	-	(165)	-	(165)
Provision/(Recovery of provision) for off-balance sheet commitments	-	(8,104)	10,506	2,402
Profit before income tax	297,374	970,399	(748,215)	519,559
Income tax expense	-	-	(100,467)	(100,467)
Net profit	297,374	970,399	(848,681)	419,092
Other comprehensive income components				
Gains/ (losses) on revaluation of financial assets available-for-sale	-	-	(35,220)	(35,220)
Income tax on other comprehensive income components	-	-	(2,651)	(2,651)
Other comprehensive income components less tax	-	-	(37,871)	(37,871)
Segment assets	10,204,135	19,345,709	2,969,844	32,519,688
Segment liabilities	10,320,046	12,521,689	7,076,047	29,917,782
Other segment information				
Loans to customers	6,496,977	17,465,872	-	23,962,849
Amounts due to customers	10,056,595	11,840,186	2,269	21,899,050

*(in millions of Belarusian roubles unless otherwise stated)***26. Segment analysis (continued)**

	Retail banking	Corporate banking	Other/Unall ocated	31 December 2008/Year ended 31 December 2008
Interest income	746,891	946,732	247,743	1,941,366
Interest expense	(705,120)	(479,354)	(192,911)	(1,377,385)
Gains (losses) on initial recognition of financial instruments at fair value	(5,315)	(154,843)	102,819	(57,339)
Gains on early repayment of preferential loans	68,248	-	-	68,248
Reversal/(charge) of loan impairment allowance	188	(100,945)	316	(100,441)
Gains less losses on foreign currencies transactions	70,112	144,822	24,234	239,168
Gains less losses on operations with securities available-for-sale	37	5,518	(4,986)	569
Fee and commission income	167,885	238,498	24,680	431,063
Fee and commission expense	(29,903)	(629)	(30,574)	(61,106)
Share in profit of associate	-	-	2,050	2,050
Other income	4,343	3,671	80,412	88,426
Operating income	317,366	603,470	253,783	1,174,619
Operating expenses	(19,597)	(61)	(882,310)	(901,968)
Impairment allowance for other assets and securities available-for-sale	-	(2,604)	-	(2,604)
Recovery of provision for off-balance sheet commitments	-	(16,004)	-	(16,004)
Profit before income tax	297,769	584,801	(628,527)	254,043
Income tax expense	-	-	(69,107)	(69,107)
Net profit	297,769	584,801	(697,634)	184,936
Segment assets	7,335,777	12,924,117	4,044,656	24,304,550
Segment liabilities	7,802,392	10,997,689	2,946,227	21,746,308
Other segment information				
Loans to customers	5,132,156	10,599,965	-	15,732,121
Amounts due to customers	7,712,702	10,754,989	1,737	18,469,428

*(in millions of Belarusian roubles unless otherwise stated)***27. Fair value of financial instruments***Financial instruments recorded at fair value*

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

At 31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments		288,890		288,890
Investment securities – available-for-sale	18,036	452,597		470,633
	<u>18,036</u>	<u>741,487</u>		<u>759,523</u>
Financial liabilities				
Derivative financial instruments		(369)		(369)
		<u>(369)</u>		<u>(369)</u>
At 31 December 2008				
Financial assets				
Derivative financial instruments		31,576		31,576
Investment securities – available-for-sale	7,948	1,609,227		1,617,175
	<u>7,948</u>	<u>1,640,803</u>		<u>1,648,751</u>
Financial liabilities				
Derivative financial instruments		(14)		(14)
		<u>(14)</u>		<u>(14)</u>

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

Derivatives

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

Securities available-for-sale

Securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(in millions of Belarusian roubles unless otherwise stated)

27. Fair value of financial instruments (continued)

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

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

	31 December 2009		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the National Bank	999,689	999,689	2,481,323	2,481,323
Amounts due from banks	952,631	952,631	916,696	916,696
Loans to customers	23 962 849	23 846 633	15 732 121	15 732 121
Debt securities available-for-sale	452,688	452,688	1,619,540	1,619,540
Amounts due to banks	6,859,576	6,859,576	2,795,989	2,795,989
Amounts due to customers	21,899,050	21,939,458	18,469,428	18,469,428
Debt securities issued	925,664	925,047	362,901	362,901

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to short-term loans to customers, interbank loans, demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

The fair value of fixed rate financial instruments recorded at amortised cost is determined based on comparison of market rates as of the recognition date with current interest rates for similar financial instruments. Estimated fair value for such financial instruments shall be calculated as discounted value of cash flows using prevailing market rates for loans with similar credit characteristics. For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

28. Capital management and regulatory matters

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

The Bank reviews its capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank' own regulatory funds with a quantified assessment of the risks it undertakes (risk-weighted assets). The Bank considers the 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, purchase and resale of own shares.

The activity of the Group is directed to maintain the level of regulatory capital, sufficient for keeping the confidence of investors, creditors and market as a whole, and also for future development of the Group.

The National Bank sets and supervises the implementation of requirements of the minimum amount of regulatory capital, the required ratio of which is 8% of the risk-weighted assets. As of 31 December 2009 and 2008, the amount of the Bank's regulatory capital was higher than the required minimum amount.

Regulatory capital is calculated in accordance with the rules, set by the National Bank, as the amount of restricted and free components of the shareholders' capital plus the Group's provisions made for its principal risks. The National Bank's requirements also include quarterly reporting of the capital amount and the ratio of capital to assets on a consolidated basis.

Compliance with the capital adequacy requirements is controlled by means of a monthly report submitted to the Deputy Chairman of the Board and Deputy Chief Accountant of the Bank.

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. The ratio was calculated according to the principles employed by the Basel Committee by applying risk estimates to assets and off-balance sheet commitments net of allowances for impairment losses and considering market risks.

(in millions of Belarusian roubles unless otherwise stated)

28. Capital management and regulatory matters (continued)

As of 31 December 2009, the Group's total capital amount and tier 1 capital amount for capital adequacy purposes was BYR 2,601,906 million with capital adequacy ratios of 8.92% and BYR 2,633,918 million with ratios of 9.02%, respectively.

As of 31 December 2008, the Group's total capital amount and tier 1 capital amount for capital adequacy purposes was BYR 2,558,242 million with capital adequacy ratios of 13.26% and BYR 2,552,383 million with ratios of 13.23%, respectively.

The financial department performs stress testing on a quarterly basis for the purpose of identifying events that could affect regulatory capital adequacy. Stress testing of capital adequacy allows the Bank to evaluate the possibility, reasons and consequences of changes in the Group's activities as a result of stress situations, as well as to enable the Bank to mitigate the negative consequences of the effect of any risk.

The Bank's portfolio of long term investments was formed taking into account the Bank's share in the share capital of one commercial organisation (that does not exceed 5% of the Bank's regulatory capital) and its limit of participation in the share capital of all commercial organisations in total (25% of regulatory capital). The Bank maintained mentioned ratios set by NBRB during as of 31 December 2009 and 2008.

29. Risk management policies

The Group is exposed to credit risk, currency risk, interest rate and liquidity risk. Risk management is fundamental to the banking business and is an essential element of the Group's activities. Risk management policies are aimed at the correct implementation of the risk management system into the general system of asset and liability management. This ensures proper diversification of the Group's assets and liabilities, maintenance of an adequate balance sheet structure in respect of attracted and placed funds and development strategy, securing normal functioning of the Group in crisis situations.

Risk management is aimed at identifying and analysing risks to which the Group is susceptible, defining risk limits and constant assessment and monitoring of risks within the set limits. Risk management procedures are reviewed regularly to incorporate changes in the market situation, new banking products, and changes in organisation structure and information systems.

The structure of risk management is based on a centralised approach using the following documents approved for the year: Principal development indicators, the annual budget, the development programme, credit policy, interest rate policy, accounting policy, personnel policy and investment programme.

Risk management is performed at three levels:

- group authority – Shareholders Meeting, the Supervisory Board, the Management Board;
- collective authority – the Credit and Financial Committees, the Assets and Liabilities Management Committee;
- structural and segregated subdivisions of the Group and Group members.

The system of internal control over the Group's risks on a consolidated basis includes the system of coordination of decisions and delegation of authority within the framework of formalised decision making of Group members, and also permanent control over Group members' activities. The Bank's representatives in the Group entities and responsible structural subdivisions of the Bank regularly submit information to the Chairman and the Internal Audit Department about risks revealed in the Group entities' activities and assessment of efficiency of investments in Group entities.

The assessment of the efficiency of the risk management process is performed on a regular basis by the Management Board, the Credit and Financial Committees, Assets and Liabilities Management Committee, and departments of the Group head office. The internal audit function monitors, verifies and assesses the efficiency of operation of the internal control system and risk management procedures. All the results are discussed with the management of respective subdivision or the Group entity and submitted to the Chairman of the Management Board of the Bank.

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

(in millions of Belarusian roubles unless otherwise stated)

29. Risk management policies (continued)

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

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

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

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

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

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. Instruments exposed to credit risk include mainly loans and receivables originated by the Group, and off-balance sheet instruments (contingent liabilities and credit commitments).

The credit policy defines lending strategy and tactics, improvements of the credit process aimed to reduce risks, ensure profitability of the Group considering the economic situation, market needs and limitations of transactions depending on creditworthiness of the borrowers. The credit policy is the main formal document which regulates the management of credit risk. The credit policy and attendant internal regulations state the following:

- review and approval procedures for loan applications;
- methodology for determining borrower credit ratings with segregation of borrowers into different classes according to paying capacity as a basis for setting loan conditions, requirements for collateral, further activity of credit monitoring;
- procedures for documenting and monitoring collateral, repossession of collateral and its sale;
- requirements for loan documentation;
- credit monitoring procedures.

According to allocated limits, the Credit Committees of the Group make decisions on lending operations within those limits and are responsible for monitoring credit risk.

Credit risk management is performed on a constant basis and comprises:

- collective decision making on the placing of funds;
- establishment of limits (changes thereto) on banking operations;
- analysis of loans, including assessment of the borrower's financial position, collateral adequacy and liquidity;
- loan portfolio quality analysis, monitoring of financial position of borrowers and counterparties for the purpose of risk forecasting; collateral existence and adequacy control;
- diversification of portfolio of financial assets bearing credit risk;
- credit risk assessment and creation of allowance for assets and off balance sheet items;
- cooperation of the Bank's departments in the initiation and monitoring stages.

Credit risk management is performed on an ongoing basis, including monitoring factors influencing credit risk exposure, changes in borrowers' and counterparties' ratings, collateral quality. It leads to the reassessment of the Bank's assets and, consequently, change in allowance, limits and ultimately to the decision to stop lending.

(in millions of Belarusian roubles unless otherwise stated)

29. Risk management policies (continued)

Credit risk (continued)

For the evaluation of credit risk in lending and other operations with clients and counterparty banks, the Group uses the methods set by the Basel Committee of bank regulation and supervision and a model of expected losses. This model differs from the impairment assessment model, used by the Group in accordance with the requirements of IAS 39 and is based on expected losses rather than incurred losses. As a result allowances presented in the consolidated financial statements based on the incurred loss model may differ from the amount of allowances determined using the expected loss model, which is used internally in line with requirements set by the regulator.

The Group accepts the following groups of collateral for operations that expose it to credit risk:

- for operations with legal entities, private entrepreneurs, financial leases – liens over equipment, real estate mortgage, pledge of inventory, lien of receivables, liens over republic and local budget funds, Government guarantees;
- for operations with government bodies – liens over republic and local budget funds, Government guarantees;
- for operations with individuals – residential property mortgages, individual guarantees, liens over property under construction;
- for operations with bonds of legal entities – liens over residential property and securities, guarantees, banking guarantees.

As a rule, loans issued to banks are not collateralised except for the receipt by the Group of securities on repo transactions. The Group also does not obtain collateral in respect of its investments in state debt securities and debt securities issued by the National Bank.

Whilst liquidity of collateral is an important factor of assessment, the possibility of repayment of the loans by the counterparty is considered to be a priority factor.

Loans and allowances for impairment are written off after one year from the moment of creation of the allowance in the total amount of the loan. Decisions to write off are made by the Board or other representative bodies.

The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of the financial asset as presented in the consolidated financial statements and the disclosed financial commitments.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. 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	31 December 2008
	Maximum exposure	Maximum exposure
Amounts due from National Bank	371,629	1,964,509
Amounts due from banks	952,631	916,696
Loans to customers	23,962,849	15,732,121
Securities available-for-sale	452,597	1,609,227
Guarantees issued	156,494	101,126
Letters of credit	1,866,416	1,079,248
Commitments on loans and undrawn credit lines	2,144,680	2,141,879
Total exposure	29,907,296	23,544,806

*(in millions of Belarusian roubles unless otherwise stated)***29. Risk management policies (continued)****Credit quality per class of financial assets**

The Group applies a diversified approach to the process of managing the credit quality of financial assets by applying a system of ratings. Amounts due from banks are classified based on current credit ratings assigned by the internationally recognised rating agency. Other financial assets bearing credit risk are evaluated based on an internal rating system (Note 13).

The table below shows the classification of amounts due from banks as of 31 December 2009 and 2008:

	AA	A	BBB	BB	B	Not Rated	Total
2009	11,123	6,967	41,826	-	793,936	98,779	952,631
2008	24,052	1,257	15,221	22	741,663	134,481	916,696

The following tables detail the carrying value of assets that are impaired and the ageing of those that are past due but not impaired (see also Note 13):

	31 December 2009			Total
	Neither past due nor impaired	Financial assets past due and impaired	Financial assets not past due but impaired	
Amounts due from the National bank	371,629			371,629
Amounts due from banks	917,161	31,900	3,570	952,631
Loans to customers	897,089	855 684	22 210 076	23,962,849
Securities available-for-sale	473,026		-	473,026
	31 December 2008			Total
	Neither past due nor impaired	Financial assets past due and impaired	Financial assets not past due but impaired	
Amounts due from the National bank	1,964,509		-	1,964,509
Amounts due from banks	916,696		-	916,696
Loans to customers	4,488,568	378,701	10,864,852	15,732,121
Securities available-for-sale	1,614,700		4,840	1,619,540

Geographical concentration

The preliminary control over geographical risk is performed in the Bank's Department for Correspondent Relations and in the Treasury Department based on the results of the analysis of balances with correspondent banks, country credit ratings, default events, transparency of the currency market, etc. To decrease the country risk the Treasury Department uses limits for correspondent banks as determined by the Bank's Financial Committee. Subsequent control is performed by the relevant departments. When increased risk is identified, the Group's management makes the decision as to whether or not to proceed with the transaction.

The Group's management minimises, to the extent that it can, those risks relating to potential changes in the legislation of the Republic of Belarus and to minimise the influence of any changes on the Group's operations.

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

*(in millions of Belarusian roubles unless otherwise stated)***29. Risk management policies (continued)****Geographical concentration (continued)**

31 December 2009	Belarus	Other CIS countries	OECD countries	Other non- OECD countries	Total
ASSETS					
Cash, balances with the National Bank and precious metals	999,689	-	-	-	999,689
Amounts due from banks	759,190	112,986	47,241	33,214	952,631
Loans to customers	23,955,491	7,358	-	-	23,962,849
Securities available-for-sale	473,026	-	-	-	473,026
Investment in associate	14,395	-	-	-	14,395
Property, equipment and intangible assets	843,963	-	-	-	843,963
Deferred tax asset	44,697	-	-	-	44,697
Income tax prepayment	12,176	-	-	-	12,176
Government grants	4,733,201	-	-	-	4,733,201
Other assets	483,061	-	-	-	483,061
TOTAL ASSETS	32,318,889	120,344	47,241	33,214	32,519,688
LIABILITIES					
Amounts due to banks	5,345,809	707,179	805,509	1,079	6,859,576
Amounts due to customers	21,862,583	2,386	23,268	10,813	21,899,050
Debt securities issued	925,664	-	-	-	925,664
Current income tax liabilities	18,631	-	-	-	18,631
Deferred tax liabilities	32,596	-	-	-	32,596
Other liabilities	182,205	17	43	-	182,265
TOTAL LIABILITIES	28,367,488	709,582	828,820	11,892	29,917,782
NET BALANCE SHEET POSITION	3,951,401	(589,238)	(781,579)	21,322	
31 December 2008					
	Belarus	Other CIS countries	OECD countries	Other non- OECD countries	Total
ASSETS					
Cash, balances with the National Bank and precious metals	2,487,090	-	-	-	2,487,090
Amounts due from banks	742,580	83,841	60,394	29,881	916,696
Loans to customers	15,732,121	-	-	-	15,732,121
Securities available-for-sale	1,619,540	-	-	-	1,619,540
Investment in associate	10,558	-	-	-	10,558
Property, equipment and intangible assets	703,776	-	-	-	703,776
Government grants	2,607,049	-	-	-	2,607,049
Income tax prepayment	20,932	-	-	-	20,932
Other assets	206,446	-	338	4	206,788
TOTAL ASSETS	24,130,092	83,841	60,732	29,885	24,304,550
LIABILITIES					
Amounts due to banks	1,983,500	30,829	781,660	-	2,795,989
Amounts due to customers	18,447,026	1,196	20,982	224	18,469,428
Debt securities issued	362,901	-	-	-	362,901
Current income tax liabilities	4,840	-	-	-	4,840
Deferred tax liabilities	2,089	-	-	-	2,089
Other liabilities	111,047	-	14	-	111,061
TOTAL LIABILITIES	20,911,403	32,025	802,656	224	21,746,308
NET BALANCE SHEET POSITION	3,218,689	51,816	(741,924)	29,661	

(in millions of Belarusian roubles unless otherwise stated)

29. Risk management policies (continued)

Geographical concentration (continued)

As of 31 December 2009 and 2008, contingent liabilities and credit commitments were issued to residents of the Republic of Belarus.

Financial assets, financial liabilities, contingent liabilities and credit commitments were classified for the purposes of geographical concentration based on domicile of the counterparty. Tangible assets such as precious metals, property and equipment were classified based on their physical location.

Liquidity risk

Liquidity risk refers to the probability that the Group will be confronted with difficulties in fulfilling its obligations. The risk of loss may arise if the Group is forced to attract expensive resources to support short-term liquidity.

The main principle in the management of liquidity is the accepted effectiveness of centralised management. The Bank manages the payment system of the Group and regulates cash flows within the system.

The Finance and Economic Department manages liquidity based on an analysis of the structure and dynamics of assets and liabilities operations by making suggestions about the amount and structure of funds to be attracted and investment of resources in liquid assets, in addition, the Finance and Economic Department forecasts liquidity ratios in order to identify the factors which negatively influence the maintenance of these ratios and to find the measures to eliminate these factors.

These forecast ratios are calculated in several versions based on modelling of different scenarios of forecast balance sheet structure by maturity dates as a result of probabilistic events analysis. Assets and liabilities structure by maturity is developed based on the forecast balance sheet. Based on this structure relevant tasks are given to the Group's subdivisions. The Finance and Economic Department controls the performance of these tasks and, if necessary, submits the issues to the Asset and Liabilities Management Committee for taking operational measures.

Stress-testing of long-term and short-term liquidity performed by the Treasury is directed to evaluate probability, reasons and consequences of changes in operations as a result of stress situations and to define measures to minimise risk.

The Treasury analyses liquidity for the forthcoming month on a daily basis, defines the necessary actions for liquidity maintenance, and estimates the possible financial result of alternative transactions. Daily cash flow is estimated based on payment schedules. The daily cash-flow results are submitted to the Assets and Liabilities Management Committee.

The forecast operating liquidity position of the Group is updated as part of the cash flow planning process, with due consideration of the situation in the financial markets and state of correspondent and sub-correspondent accounts of the Group. The Group calculates the mandatory liquidity ratios in accordance with the requirements of the National Bank. Reports on the liquidity position are provided to senior management of the Group on a daily basis.

The maturity dates of assets and liabilities and also the possibility of replacement at acceptable cost of interest-bearing liabilities at maturity date are the most important factors in assessing liquidity of the Group's assets and liabilities and its susceptibility to the fluctuations of interest rates and rate of exchange.

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

*(in millions of Belarusian roubles unless otherwise stated)***29. Risk management policies (continued)****Liquidity risk (continued)**

31 December 2009	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to banks	908,334	647,687	3,449,436	3,522,116	21,713	8,549,286
Amounts due to customers	10,313,931	9,042,483	1,552,022	2,435,174	15,791	23,359,401
Debt securities issued	21,946	154,386	318,408	557,417	-	1,052,157
Other liabilities	70,825	11,972	53,245	32	8,250	144,324
Liabilities under guarantees and letters of credit	2,414,921	-	-	-	-	2,414,921
Commitments on loans and undrawn credit lines	2,144,680	-	-	-	-	2,144,680
TOTAL FINANCIAL LIABILITIES	15,874,637	9,856,528	5,373,111	6,514,739	45,754	37,664,769
31 December 2008						
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Amounts due to banks	902,422	239,260	1,412,818	336,344	1,469	2,892,313
Amounts due to customers	14,107,755	1,598,313	2,174,617	885,748	168,037	18,934,470
Debt securities issued	47,683	9,980	121,088	245,731	-	424,482
Other liabilities	40,138	687	3,017	4,146	1,199	49,187
Guarantees and letters of credit	928,704	-	-	-	-	928,704
Commitments on loans and undrawn credit lines	2,141,879	-	-	-	-	2,141,879
TOTAL FINANCIAL LIABILITIES	18,168,581	1,848,240	3,711,540	1,471,969	170,705	25,371,035

(in millions of Belarusian roubles unless otherwise stated)

The following tables present an analysis of liquidity risk based on the carrying values of assets and liabilities in the consolidated balance sheet:

31 December 2009	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	Total
ASSETS								
Amounts due from banks	207,755	1,076	30,754	449,376	256,094	3,540	-	948,595
Loans to customers	1,762,985	2,261,822	7,806,056	7,396,410	4,527,737	207,839	-	23,962,849
Securities available-for-sale	473	30,999	130,956	183,609	106,560	-	-	452,597
Government grant	31,240	61,976	270,459	1,223,316	3,146,210	-	-	4,733,201
Total interest bearing assets	2,002,453	2,355,873	8,238,225	9,252,711	8,036,601	211,379	-	30,097,242
Cash, balances with the National Bank and precious metals	638,392	-	-	-	-	-	361,297	999,689
Amounts due from banks	4,036	-	-	-	-	-	-	4,036
Securities available-for-sale	-	-	-	-	-	-	20,429	20,429
Investment in associate	-	-	-	-	-	-	14,395	14,395
Property, equipment and intangible assets	-	-	-	-	-	-	843,963	843,963
Income tax prepayment	12,176	-	-	-	-	-	-	12,176
Deferred income tax asset	-	-	-	-	-	-	44,697	44,697
Other assets	92,887	1,362	47	292,152	17,353	12,875	66,385	483,061
TOTAL ASSETS	2,749,944	2,357,235	8,238,272	9,544,863	8,053,954	224,254	1,351,166	32,519,688
LIABILITIES								
Amounts due to banks	890,521	587,761	2,941,045	2,410,736	23,704	-	-	6,853,767
Amounts due to customers	6,905,462	3,341,762	2,150,983	5,991,890	10,078	-	-	18,400,175
Debt securities issued	16,521	142,203	260,772	502,730	-	-	-	922,226
Total interest bearing liabilities	7,812,504	4,071,726	5,352,800	8,905,356	33,782	-	-	26,176,168
Amounts due to banks	5,809	-	-	-	-	-	-	5,809
Amounts due to customers	2,230,525	15,553	1,055,369	193,597	3,831	-	-	3,498,875
Debt securities issued	3,438	-	-	-	-	-	-	3,438
Current income tax liabilities	18,631	-	-	-	-	-	-	18,631
Deferred tax liabilities	-	-	-	-	-	-	32,596	32,596
Other liabilities	96,679	17,818	59,355	163	8,250	-	-	182,265
TOTAL LIABILITIES	10,167,586	4,105,097	6,467,524	9,099,116	45,863	-	32,596	29,917,782
Liquidity gap	(7,417,642)	(1,747,862)	1,770,748	445,747	8,008,091			
Interest sensitivity gap	(5,810,051)	(1,715,853)	2,885,425	347,355	8,002,819			
Cumulative interest sensitivity gap	(5,810,051)	(7,525,904)	(4,640,479)	(4,293,124)	3,709,695			
Cumulative interest sensitivity gap as a percentage of total assets	-18%	-23%	-14%	-13%	11%			

(in millions of Belarusian roubles unless otherwise stated)

31 December 2008	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	Total
ASSETS								
Amounts due from banks	51,230	250,175	36,012	437,988	31,899	-	-	807,304
Loans to customers	1,143,113	1,517,494	4,110,714	5,945,231	2,942,321	73,248	-	15,732,121
Securities available-for-sale	665,635	39,967	165,378	74,641	663,597	-	6	1,609,224
Government grant	16,856	33,634	149,271	644,241	1,763,047	-	-	2,607,049
Total interest bearing assets	1,876,834	1,841,270	4,461,375	7,102,101	5,400,864	73,248	6	20,755,698
Cash, balances with the National Bank and precious metals	2,027,503	-	-	-	-	-	459,587	2,487,090
Amounts due from banks	109,392	-	-	-	-	-	-	109,392
Securities available-for-sale	-	-	-	-	-	-	10,316	10,316
Investment in associate	-	-	-	-	-	-	10,558	10,558
Property, equipment and intangible assets	-	-	-	-	-	-	703,776	703,776
Income tax prepayment	20,932	-	-	-	-	-	-	20,932
Other assets	81,366	3,424	8,785	34,514	-	31,161	47,538	206,788
TOTAL ASSETS	4,116,027	1,844,694	4,470,160	7,136,615	5,400,864	104,409	1,231,781	24,304,550
LIABILITIES								
Amounts due to banks	908,824	248,866	1,333,265	302,135	2,856	43	-	2,795,989
Amounts due to customers	4,909,184	1,904,467	2,917,617	6,054,888	168,037	80,509	5	16,034,707
Debt securities issued	21,678	8,758	96,894	234,039	-	-	-	361,369
Total interest bearing liabilities	5,839,686	2,162,091	4,347,776	6,591,062	170,893	80,552	5	19,192,065
Amounts due to banks	-	-	-	-	-	-	-	-
Amounts due to customers	2,434,480	124	29	88	-	-	-	2,434,721
Debt securities issued	1,532	-	-	-	-	-	-	1,532
Current income tax liabilities	4,840	-	-	-	-	-	-	4,840
Deferred tax liabilities	-	-	-	-	-	-	2,089	2,089
Other liabilities	76,503	7,745	12,701	4,631	1,199	7,578	704	111,061
TOTAL LIABILITIES	8,357,041	2,169,960	4,360,506	6,595,781	172,092	88,130	2,798	21,746,308
Liquidity gap	(4,241,014)	(325,266)	109,654	540,834	5,228,772			
Interest sensitivity gap	(3,962,852)	(320,821)	113,599	511,039	5,229,971			
Cumulative interest sensitivity gap	(3,962,852)	(4,283,673)	(4,170,074)	(3,659,035)	1,570,936			
Cumulative interest sensitivity gap as a percentage of total assets	-16%	-18%	-17%	-15%	6%			

(in millions of Belarusian roubles unless otherwise stated)

29. Risk management policies (continued)

Liquidity risk (continued)

The maturity analysis above does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in up to one month in the tables above. Included in due to customers are term deposits of individuals. In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within five days upon demand of a depositor. However, the Bank does not expect that many customers will request repayment on earlier dates as in such case accrued interest would be recalculated using the "on-demand" deposit interest rate. These balances are included in accordance with their contractual maturity.

Market Risk

Market risk is the risk of fluctuations of fair value or cash flows of financial instrument due to changes of market prices.

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed in respect of open positions on interest-bearing, foreign currency denominated and equity financial instruments which are susceptible to changes in market factors; market risk exposure is calculated monthly as required by the National Bank.

Market risk limitation and minimisation is managed through trading portfolio limits in an amount that does not exceed 5% of the Bank's assets. During the years ended 31 December 2009 and 31 December 2008, the established limit for trading portfolio was maintained.

Interest rate risk

Interest rate risk is the risk of fluctuations of fair value or cash flows of financial instrument due to changes of market interest rates.

Interest rate risk management is performed by the Group within the framework of its interest rate policy, which represents the process of regulating cost of attracted and invested resources by changing their interest rates. Net interest income is the indicator that accumulates the influence of internal and external factors of interest rate policy.

Interest rates of attracted and invested resources are determined by the Management Board and the Finance Committee taking into account supply and demand in the financial markets, and the necessity to adhere to approved budget and liquidity positions.

The Finance Committee provides operative regulation of interest rates taking into account the actual liquidity of the Group, as well the situation in the markets in short-term and mid-term prospects. The Assets and Liabilities Management Committee analyses the interest rates of attracted and invested resources, considers optimisation of the interest rate and assets and liabilities structure in both short-term and mid-term prospects, as well as controlling the fulfilment of the principal indicators of the Group's development and taken decisions. The Credit Committee makes decisions on lending transactions within the framework of approved interest rate policy.

The main methods of interest rate risk minimisation are:

- ensuring a balanced structure of assets and liabilities, sensitive to changes in interest rates with regard to respective amounts and maturity dates;
- possibility for the Bank to change the terms of lending and funding operations, including the level of interest rate;
- regular stress-testing of interest rates with the purpose of measuring, assessing, and controlling the level of interest rate risk, including quantitative and qualitative analysis. Quantitative analysis includes an assessment of the impact of internal and external factors on interest rate risk. This analysis is based on scenario modelling along with factor and multiple-factor tests. The Group's ability to minimise negative consequences arising from interest rate risk factors is assessed by means of qualitative analysis.

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. The level of these changes is determined by management. The sensitivity analysis below represents the effect of 2% increase/decrease in interest rates (31 December 2008 – 5%) effective at the reporting date on the net profit of the Group assuming that the change took place at the beginning of the financial year and held constant throughout the year, and providing all other variables are held constant.

*(in millions of Belarusian roubles unless otherwise stated)***29. Risk management policies (continued)****Interest rate risk (continued)**

Impact on profit before tax and on equity as of 31 December 2009:

	National currency		Foreign currency	
	Interest rate +2 basis points	Interest rate -2 basis points	Interest rate +0.25 basis point	Interest rate -0.25 basis point
Impact on profit:				
Assets				
Amounts due from banks	14,001	(14,001)	-	-
Loans to customers	424,010	(424,010)	16,936	(16,936)
Securities available-for-sale	69	(69)	-	-
Liabilities				
Amounts due to banks	(46,597)	46,597	(2,219)	2,219
Amounts due to customers	(132,887)	132,887	(7,402)	7,402
Debt securities issued	(4,031)	4,031	-	-
Net impact on profit before tax	254,565	(254,565)	7,315	(7,315)
Impact on equity (other than profit for the year):				
Securities available-for-sale	(24,726)	26,964	-	-
Net impact on equity	229,839	(227,601)	7,315	(7,315)

Impact on profit before tax and on equity as of 31 December 2008:

	National currency		Foreign currency	
	Interest rate +5 basis points	Interest rate -5 basis points	Interest rate +0.55 basis point	Interest rate -0.55 basis point
Impact on profit:				
Assets				
Amounts due from banks	21,996	(21,996)	-	-
Loans to customers	672,635	(672,635)	27,115	(27,115)
Securities available-for-sale	58,450	(58,450)	-	-
Liabilities				
Amounts due to banks	(1,935)	1,935	(4,073)	4,073
Amounts due to customers	(388,263)	388,263	(12,753)	12,753
Debt securities issued	(14,699)	14,699	-	-
Net impact on profit before tax	348,184	(348,184)	10,289	(10,289)
Impact on equity (other than profit for the year):				
Securities available-for-sale	(13,392)	16,941	-	-
Net impact on equity	334,792	(331,243)	10,289	(10,289)

The Group generally uses loan contracts that either bear variable interest rates or contain clauses enabling the interest rate to be changed at the option of the lender. The Group's management monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

*(in millions of Belarusian roubles unless otherwise stated)***29. Risk management policies (continued)****Currency risk**

The main purposes of currency risk management are to minimise currency risk within a planned level of profitability, and to limit possible losses relating to changes in foreign exchange rates in external and internal markets.

Currency risk management includes centralised management of the currency position of all the Group's subdivisions by means of:

- planning, forecasting and regulation of cash flows, influencing the open currency position;
- definition and maintenance of optimal open currency position;
- calculations and approval by the Finance Committee of the loss limits, operational limits and limits for arbitrage treasury transactions;
- setting sub-limits on the open currency position for structural subdivisions of the Group;
- setting exchange rate limits (corridors) for transactions on the over-the-counter market.

The Currency Position Department performs centralised regulation and control over compliance of currency position with set parameters.

The Group's exposure to foreign currency exchange rate risk in 2009 is presented in the table below:

	BYR and non- monetary items	USD	EUR	Other currencies	31 December 2009 Total
ASSETS					
Cash and balances with the National Bank and precious metals	757,931	120,979	70,307	50,472	999,689
Amounts due from banks	742,262	49,522	41,349	119,498	952,631
Loans to customers	17,166,883	4,812,157	1,629,794	354,015	23,962,849
Securities available-for-sale	473,026	-	-	-	473,026
Investment in associate	14,395	-	-	-	14,395
Property, equipment and intangible assets	843,963	-	-	-	843,963
Government grants	4,733,201	-	-	-	4,733,201
Income tax prepayment	12,176	-	-	-	12,176
Deferred tax assets	44,697	-	-	-	44,697
Other assets	481,665	172	1,101	123	483,061
TOTAL ASSETS	<u>25,270,199</u>	<u>4,982,830</u>	<u>1,742,551</u>	<u>524,108</u>	<u>32,519,688</u>
LIABILITIES					
Amounts due to banks	5,170,167	757,145	816,445	115,819	6,859,576
Amounts due to customers	13,257,468	5,843,392	2,373,957	424,233	21,899,050
Debt securities issued	209,043	479,371	237,250	-	925,664
Current income tax liability	18,631	-	-	-	18,631
Deferred tax liabilities	32,596	-	-	-	32,596
Other liabilities	143,392	20,381	14,280	4,212	182,265
TOTAL LIABILITIES	<u>18,831,297</u>	<u>7,100,289</u>	<u>3,441,932</u>	<u>544,264</u>	<u>29,917,782</u>
OPEN CURRENCY POSITION	<u>6,438,902</u>	<u>(2,117,459)</u>	<u>(1,699,381)</u>	<u>(20,156)</u>	

*(in millions of Belarusian roubles unless otherwise stated)***29. Risk management policies (continued)****Currency risk (continued)****Derivative financial instruments**

The fair value of derivatives is included in the currency analysis presented above and the following table presents further analysis of the currency risk relating to derivative financial instruments as of 31 December 2009:

					31 December 2009 Total
DERIVATIVE INSTRUMENTS	BYR	USD	EUR	Other currencies	
Claims on forward contracts	-	975,481	328,489	-	1,303,970
Liabilities on forward contracts	(1,217,095)	-	-	-	(1,217,095)
Claims on spot contracts	-	1,003,526	82,286	-	1,085,812
Liabilities on spot contracts	(1,079,907)	(8,419)	-	-	(1,088,326)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(2,297,002)	1,970,588	410,775	-	84,361
TOTAL OPEN POSITION INCLUDING DERIVATIVE INSTRUMENTS	4,141,900	(146,871)	(1,288,606)	(20,156)	

The table below presents the open currency position analysis for 2008:

	BYR and non- monetary items	USD	EUR	Other currencies	31 December 2008 Total
ASSETS					
Cash and balances with the National Bank and precious metals	1,468,285	586,904	301,266	130,635	2,487,090
Amounts due from banks	691,528	36,618	90,189	98,361	916,696
Loans to customers	10,867,503	3,185,484	1,476,673	202,461	15,732,121
Securities available-for-sale	1,619,540	-	-	-	1,619,540
Investment to associate	10,558	-	-	-	10,558
Property, equipment and intangible assets	703,776	-	-	-	703,776
Government grants	2,604,656	-	2,183	210	2,607,049
Income tax prepayment	20,932	-	-	-	20,932
Other assets	190,669	13,995	1,964	160	206,788
TOTAL ASSETS	18,177,447	3,823,001	1,872,275	431,827	24,304,550
LIABILITIES					
Amounts due to banks	1,908,084	319,288	515,984	52,633	2,795,989
Amounts due to customers	12,928,934	3,616,973	1,542,316	381,205	18,469,428
Debt securities issued	312,052	20,785	30,064	-	362,901
Current income tax liabilities	4,840	-	-	-	4,840
Deferred tax liabilities	2,089	-	-	-	2,089
Other liabilities	71,439	23,139	15,403	1,080	111,061
TOTAL LIABILITIES	15,227,438	3,980,185	2,103,767	434,918	21,746,308
OPEN CURRENCY POSITION	2,950,009	(157,184)	(231,492)	(3,091)	

*(in millions of Belarusian roubles unless otherwise stated)***29. Risk management policies (continued)****Currency risk (continued)****Derivative financial instruments**

The fair value of derivatives is included in the currency analysis presented above and the following table presents further analysis of the currency risk relating to derivative financial instruments as of 31 December 2008:

DERIVATIVE INSTRUMENTS					31 December
	BYR	USD	EUR	Other currencies	2008 Total
Claims on forward contracts	--	220,000	246,171	-	466,171
Liabilities on forward contracts	(491,249)	-	-	-	(491,249)
Claims on spot contracts	--	46,001	1,846	488	48,335
Liabilities on spot contracts	--	(2,340)	(44,311)	(1,365)	(48,016)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	<u>(491,249)</u>	<u>263,661</u>	<u>203,706</u>	<u>(877)</u>	<u>(24,759)</u>
TOTAL OPEN POSITION INCLUDING DERIVATIVE INSTRUMENTS	<u>2,458,760</u>	<u>106,477</u>	<u>(27,786)</u>	<u>(3,968)</u>	

Currency risk sensitivity analysis

The following tables detail the Group's sensitivity to an expected increase and decrease in the US dollar, euro and Russian rouble against the Belarusian rouble.

As of 31 December 2009, following instability in the financial markets, the Bank's management performed an additional sensitivity analysis to an increase in exchange rates within the following ranges:

- US dollar - exchange rate increase to BYR within the range from -20.1% to 20.1%;
- Euro - from -23.3% to 23.3%;
- RUB - from -21.8% to 21.8%.

For range determination, the Group used the forecast of the average annual exchange rates of US dollar and euro taking into account possible fluctuations of BYR value to a foreign currency basket consisting of three currencies as established by the NBRB.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for expected change in foreign currency rates.

	31 December 2009		31 December 2008	
	BYR/USD 20.1%	BYR/USD -20.1%	BYR/USD 37.45%	BYR/USD 24.36%
Impact on net profit	(15,999)	15,999	39,880	25,942
Impact on equity	(15,999)	15,999	39,880	25,942
	BYR/EUR 23.3%	BYR/EUR -23.3%	BYR/EUR 27.75%	BYR/EUR 15.59%
Impact on net profit	(126,392)	126,392	(7,712)	(4,331)
Impact on equity	(126,392)	126,392	(7,712)	(4,331)
	BYR/RUB 21.8%	BYR/RUB -21.8%	BYR/RUB 12.05%	BYR/RUB 1.38%
Impact on net profit	(1,934)	1,934	(478)	(55)
Impact on equity	(1,934)	1,934	(478)	(55)

(in millions of Belarusian roubles unless otherwise stated)

29. Risk management policies (continued)

Limitations of sensitivity analysis

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

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

Operating environment

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

The Belarusian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product growth, in considerable instability in global capital markets, a significant deterioration in the liquidity of banks, much tighter credit conditions where credit is available and significant devaluation of the Belarusian rouble against major currencies. Whilst the Belarusian Government has introduced a range of various stabilisation measures aimed at supporting the exchange rates, providing liquidity for Belarusian banks and increasing depositors' confidence in the banking sector, there continues to be uncertainty regarding access to capital and cost of capital for the Group and its counterparties. At the same time, the global economic recession has also had a significant negative impact on Belarusian balance of payments resulting from a drop in exports and especially to Russian market. These factors could affect the Group's financial position, results of operations and business prospects.

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

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

(in millions of Belarusian roubles unless otherwise stated)

31. Events after the reporting period

On 26 March 2010, the annual General Shareholders' Meeting of the Bank made a decision to pay dividends for the year ended 31 December 2009 of BYR 18,527 million.

On 29 January 2010, the Group concluded an agreement with a number of foreign banks to attract a syndicated loan of USD 60 million.

On 17 February 2010 and 19 April 2010, the National Bank of the Republic of Belarus twice decreased the refinance rate (from 13.5% to 13% and from 13% to 12.5% respectively).

In 2010, the Bank purchased local authority bonds of BYR 322,189 mln.