

**“Fransabank”
Open Joint Stock Company**

Financial Statements
For the Year Ended 31 December 2009

“FRANSABANK” OPEN JOINT STOCK COMPANY

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“FRANSABANK” OPEN JOINT STOCK COMPANY

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Management is responsible for the preparation of the financial statements that present fairly the financial position of “Fransabank” Open Joint Stock Company (the “Bank”) as of 31 December 2009, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the financial statements, management is responsible for:


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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2009 were authorized for issue on 25 June 2010 by the Management Board.

On behalf of the Management Board:



Chairman of the Management Board

Ibrahim Koleilat
25 June 2010
Minsk



Deputy Chief Accountant

Anna N. Rusakovich
25 June 2010
Minsk

INDEPENDENT AUDITORS' REPORT

To the Shareholders of "Fransabank" Open Joint Stock Company:

We have audited the accompanying financial statements of "Fransabank" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as of 31 December 2009, the statements of comprehensive income, of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of “Fransabank” Open Joint Stock Company as of 31 December 2009, and its financial performance and cash flows for the year then ended, in accordance with IFRS.

Deloitte & Touche

25 June 2010


Minsk

“FRANSABANK” OPEN JOINT STOCK COMPANY

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

| | Notes | Year ended 31 December 2009 | Year ended 31 December 2008 |
|---|-------|-----------------------------------|-----------------------------------|
| Interest income | 4, 23 | 10,384 | 4,163 |
| Interest expense | 4, 23 | (1,082) | (496) |
| NET INTEREST INCOME BEFORE (PROVISION)/RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 9,302 | 3,667 |
| (Provision)/recovery of provision for impairment losses on interest bearing assets | 5 | (2,458) | 428 |
| NET INTEREST INCOME | | 6,844 | 4,095 |
| Net gain on foreign exchange operations | 6 | 11,750 | 7,571 |
| Fee and commission income | 7, 23 | 5,802 | 4,695 |
| Fee and commission expense | 7, 23 | (292) | (324) |
| Other provisions | 5 | (29) | (10) |
| Other income | 9 | 162 | 258 |
| NET NON-INTEREST INCOME | | 17,393 | 12,190 |
| OPERATING INCOME | | 24,237 | 16,285 |
| OPERATING EXPENSES | 8, 23 | (12,842) | (9,811) |
| PROFIT BEFORE INCOME TAXES | | 11,395 | 6,474 |
| Income tax expense | 10 | (2,991) | (1,357) |
| NET PROFIT | | 8,404 | 5,117 |
| OTHER COMPREHENSIVE INCOME | | - | - |
| TOTAL COMPREHENSIVE INCOME | | 8,404 | 5,117 |

On behalf of the Management Board:



Chairman of the Management Board

Ibrahim Koleilat
25 June 2010
Minsk



Deputy Chief Accountant

Anna N. Rusakovich
25 June 2010
Minsk


The notes on pages 9 to 45 form an integral part of these financial statements.

“FRANSABANK” OPEN JOINT STOCK COMPANY

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

| | Notes | 31 December 2009 | 31 December 2008 |
|---|--------|---------------------|---------------------|
| ASSETS: | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 11 | 22,596 | 9,241 |
| Due from banks and other financial institutions | 12, 23 | 52,267 | 20,268 |
| Loans to customers | 13, 23 | 44,678 | 27,798 |
| Investments held to maturity | 14 | 27,095 | - |
| Property, equipment and intangible assets | 15 | 2,648 | 1,304 |
| Investment property | 15 | - | 214 |
| Other assets | 16 | 678 | 246 |
| TOTAL ASSETS | | 149,962 | 59,071 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES: | | | |
| Due to banks | 17 | 2,891 | - |
| Customer accounts | 18, 23 | 28,404 | 20,274 |
| Current income tax liabilities | | 386 | 179 |
| Deferred income tax liabilities | 10 | - | 336 |
| Other liabilities | 19 | 1,417 | 967 |
| Subordinated debt | 20, 23 | 34,557 | - |
| Total liabilities | | 67,655 | 21,756 |
| EQUITY: | | | |
| Share capital | 21 | 81,556 | 45,174 |
| Treasury shares | | - | (206) |
| Retained earnings /(accumulated deficit) | | 751 | (7,653) |
| Total equity | | 82,307 | 37,315 |
| TOTAL LIABILITIES AND EQUITY | | 149,962 | 59,071 |

On behalf of the Management Board:



Chairman of the Management Board

Ibrahim Koleilat
25 June 2010
Minsk



Deputy Chief Accountant

Anna N. Rusakovich
25 June 2010
Minsk

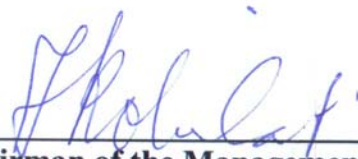
The notes on pages 9 to 45 form an integral part of these financial statements.

“FRANSABANK” OPEN JOINT STOCK COMPANY

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

| | Notes | Share capital | Treasury shares | Retained earnings/ (accumulated deficit) | Total equity |
|---|-------|---------------|-----------------|---|---------------|
| 31 December 2007 | | 29,790 | (206) | (12,770) | 16,814 |
| Share capital increase | 21 | 15,384 | - | - | 15,384 |
| Total comprehensive income for the year | | - | - | 5,117 | 5,117 |
| 31 December 2008 | | 45,174 | (206) | (7,653) | 37,315 |
| Share capital increase | 21 | 36,382 | - | - | 36,382 |
| Treasury shares sale | | - | 206 | - | 206 |
| Total comprehensive income for the year | | - | - | 8,404 | 8,404 |
| 31 December 2009 | | <u>81,556</u> | <u>-</u> | <u>751</u> | <u>82,307</u> |

On behalf of the Management Board:



Chairman of the Management Board

Ibrahim Koleilat
 25 June 2010
 Minsk



Deputy Chief Accountant

Anna N. Rusakovich
 25 June 2010
 Minsk

The notes on pages 9 to 45 form an integral part of these financial statements.

“FRANSABANK” OPEN JOINT STOCK COMPANY

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

| | Notes | Year ended 31 December 2009 | Year ended 31 December 2008 |
|--|-------|-----------------------------------|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Profit before income taxes | | 11,395 | 6,474 |
| Adjustments for: | | | |
| Provision/(recovery of provision) for impairment losses on interest bearing assets | | 2,458 | (428) |
| Other provisions | | 29 | 10 |
| Change in fair value of derivative financial instruments | | 139 | - |
| Depreciation and amortization | | 373 | 306 |
| Net gain on disposal of property and equipment | | (2) | (18) |
| Translation differences, net | | (4,593) | (1,891) |
| Change in interest accruals, net | | (179) | 183 |
| Change in other accruals, net | | 269 | 266 |
| Cash flow from operating activities before changes in operating assets and liabilities | | 9,889 | 4,902 |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Minimum reserve deposit with the National Bank of the Republic of Belarus | | (49) | 113 |
| Due from banks and other financial institutions | | (9,845) | (11,854) |
| Loans to customers | | (16,290) | (5,244) |
| Other assets | | 158 | (93) |
| Increase/(decrease) in operating liabilities: | | | |
| Due to banks | | 2,805 | - |
| Customer accounts | | 7,407 | (4,238) |
| Other liabilities | | (409) | 2,342 |
| Cash outflow from operating activities before income taxes | | (6,334) | (14,072) |
| Income taxes paid | | (3,120) | (911) |
| Net cash outflow from operating activities | | (9,454) | (14,983) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property, equipment and intangible assets | | (1,936) | (291) |
| Proceeds on disposal of property, equipment and intangible assets | | 59 | 108 |
| Purchase of investments held to maturity | | (26,645) | - |
| Net cash outflow from investing activities | | (28,522) | (183) |

“FRANSABANK” OPEN JOINT STOCK COMPANY

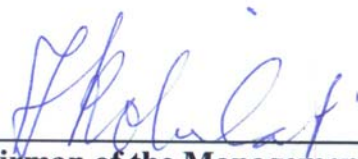
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED) (in millions of Belarusian Roubles)

| | Notes | Year ended 31 December 2009 | Year ended 31 December 2008 |
|--|-------|-----------------------------------|-----------------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Share capital increase | | 36,382 | 15,384 |
| Subordinated debt received | | 33,384 | - |
| Redemption of debt securities issued, net | | - | (12) |
| Sale of treasury shares | | 206 | - |
| | | <u>69,972</u> | <u>15,372</u> |
| Net cash inflow from financing activities | | | |
| | | <u>69,972</u> | <u>15,372</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 31,996 | 206 |
| EFFECT OF CHANGES IN FOREIGN CURRENCIES EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | | 443 | 1,602 |
| CASH AND CASH EQUIVALENTS, beginning of year | 11 | <u>12,705</u> | <u>10,897</u> |
| CASH AND CASH EQUIVALENTS, end of year | 11 | <u>45,144</u> | <u>12,705</u> |

Interest paid and received by the Bank during the year ended 31 December 2009 amounted to BYR 834 million and BYR 9,957 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2008 amounted to BYR 495 million and BYR 4,345 million, respectively.

On behalf of the Management Board:



Chairman of the Management Board

Ibrahim Koleilat
25 June 2010
Minsk



Deputy Chief Accountant

Anna N. Rusakovich
25 June 2010
Minsk

The notes on pages 9 to 45 form an integral part of these financial statements.

“FRANSABANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(in millions of Belarusian Roubles, unless otherwise stated)

1. ORGANISATION

“Fransabank” Open Joint Stock Company (the “Bank”) was incorporated in the Republic of Belarus on 5 October 1994. The Bank was registered by the National Bank of the Republic of Belarus (the “National Bank”) as a joint-stock commercial bank “Golden Taler Bank” and renamed to “Fransabank” Open Joint Stock Company on 13 November 2008. The address of its registered office is 3 Tatarskaya Str., Minsk, Republic of Belarus.

The Bank provides a wide range of banking services to its clients. The Bank’s primary areas of operations include granting loans to customers, payments transfers, exchanging foreign currencies upon demand of its customers and for trading purposes, attracting deposits and transactions with securities. The Bank has a banking business license # 15 issued on 29 December 2008, a license for professional and stock-exchange operations with securities and other licenses. Starting from 29 December 2008 the Bank is allowed to attract deposits from individuals. The licenses of the Bank allow it to perform primary banking operations including lending, maintaining accounts and attracting demand and time deposits from individuals and corporate customers, performing foreign exchange operations and operations with securities.

The average number of employees of the Bank for the years ended 31 December 2009 and 2008 was 231 and 234, respectively.

As of 31 December 2009 and 2008 the share capital of the Bank was owned by the following shareholders:

| | 31 December 2009 | 31 December 2008 |
|---------------------------------|-----------------------------|-----------------------------|
| Fransa Holding S.A.L. (Lebanon) | 62.21% | 81.78% |
| FRANSABANK S.A.L. (Lebanon) | 37.73% | 18.08% |
| Other | 0.06% | 0.14% |
| Total | <u>100.00%</u> | <u>100.00%</u> |

On 12 September 2008 control over the Bank passed to Fransa Holding S.A.L. The ultimate controlling parties of the holding are Adnan Kassar and Adel Kassar, citizens of Lebanon.

These financial statements were authorized for issue by the Management Board on 25 June 2010.

2. BASIS OF PRESENTATION

Accounting basis

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

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

These financial statements are presented in millions of Belarusian Roubles (“BYR million”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of certain non-monetary assets that occurred before 1 January 2006 and are recognized according to International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

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

Functional and presentation currency

Functional and presentation currency of these financial statements is the Belarusian rouble (“BYR”).

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

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

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

Cash and cash equivalents

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

Due from banks and other financial institutions

In the normal course of business the Bank maintains advances or deposits for various periods of time with other banks and financial institutions. Balances due from banks and other financial institutions with fixed maturity are subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks and other financial institutions are carried net of allowance for impairment losses, if any.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage currency and liquidity risks. Derivatives entered into by the Bank include foreign currency forwards, are not designated as hedges and do not qualify for hedge accounting.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Fair values for foreign currency contracts which do not have quoted prices available are obtained from the interest rates parity model. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the statement of comprehensive income for the period in which they arise in net gain/(loss) on foreign exchange operations.

Loans to customers

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

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

Write-off of loans

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

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

Allowance for impairment losses

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

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

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or group evaluation of financial assets not being material individually.

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

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

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as 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; and
- the leased assets are of a specialized nature so that only the lessee can use them without major modifications being made.

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

Before commencement of the lease, property and equipment purchased for future transfer to financial lease is recognized in other assets.

Operating leases

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

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

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest rate method.

Property, equipment and intangible assets

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

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

| | |
|---|--------|
| Buildings | 1-12% |
| Computer equipment | 11-20% |
| Vehicles | 11% |
| Office furniture and other fixed assets | 10-20% |
| Intangible assets | 20-50% |

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

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

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

Investment property

The Bank classifies buildings as an investment property when it is held for long-term rental yields or appreciation in value or both rather than for use in the provision of services or for administrative purposes; or sale in the ordinary course of business. Investment property acquired before 1 January 2006 is carried at historical cost restated for inflation less accumulated depreciation and recognized impairment loss, if any. Investment property acquired after 1 January 2006 is carried at historical cost less accumulated depreciation and recognized impairment loss, if any.

Annual depreciation rate for the building classified as an investment property is 2%.

Taxation

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

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

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

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

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

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

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

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

Due to banks, customer accounts and subordinated debt

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

Provisions

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

Financial guarantees contracts and letters of credit issued

Financial guarantees contracts and letters of credit issued by the Bank are 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 guarantees contracts and letters of credit issued are initially recognized at fair value. Subsequently, they are measured at the higher of (a) the amount recognized as provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

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

Share capital

Contributions to share capital made before 1 January 2006 are recognized at their cost restated for inflation. Contributions to share capital made after 1 January 2006 are recognized at cost. Non-cash contributions are included into the share capital at fair value of the contributed assets. Treasury shares are recognized at cost.

Dividends are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the end of reporting period are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Retirement obligations

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

Interest income and expense

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

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Fee and commission income and expense

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

Foreign currency translation

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

Rates of exchange

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

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

Offset of financial assets and liabilities

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

Accounting for the effects of hyperinflation

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

Areas of significant management judgment and sources of estimation uncertainty

The preparation of the financial statements in accordance with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the end of reporting period, and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Although those estimates are based on the most recent information available to the management on current actions and events, actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Allowance for impairment of loans

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

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical or macroeconomic data relating to similar borrowers or forecasting data relating to a borrower's business. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data and forecasts indicating an adverse change in the payment status of borrowers in a Bank, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

Deferred income tax assets

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

Provisions for financial guarantees and other contingent liabilities

Provisions for financial guarantees and other contingent liabilities are measured in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, that requires application of management estimation and judgment.

Adoption of new and revised International Financial Reporting Standards

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

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

Standards and interpretations in issue and not yet adopted

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

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

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

4. NET INTEREST INCOME

Net interest income comprises:

| | Year ended 31 December 2009 | Year ended 31 December 2008 |
|--|--|--|
| Interest income on financial assets recorded at amortized cost comprises: | | |
| Interest on loans to customers | 7,717 | 3,400 |
| Interest on due from banks | 2,080 | 763 |
| Interest on investments held to maturity | 587 | - |
| Total interest income | <u>10,384</u> | <u>4,163</u> |
| Interest expense on financial liabilities recorded at amortized cost comprises: | | |
| Interest on customer accounts | 444 | 311 |
| Interest on due to banks | 437 | 185 |
| Interest on subordinated debt | 201 | - |
| Total interest expense | <u>1,082</u> | <u>496</u> |
| Net interest income before provision for impairment losses on interest bearing assets | <u>9,302</u> | <u>3,667</u> |

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

| | Loans to customers |
|-------------------------|-------------------------------|
| 31 December 2007 | 3,333 |
| Recovery of provision | <u>(428)</u> |
| 31 December 2008 | 2,905 |
| Provision | 2,458 |
| Write off of assets | <u>(224)</u> |
| 31 December 2009 | <u>5,139</u> |

The movements in other provisions were as follows:

| | Guarantees and other contingent liabilities |
|-------------------------|--|
| 31 December 2007 | 33 |
| Provision | <u>10</u> |
| 31 December 2008 | 43 |
| Provision | <u>29</u> |
| 31 December 2009 | <u><u>72</u></u> |

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

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

| | Year ended 31 December 2009 | Year ended 31 December 2008 |
|--|--|--|
| Dealing, net | 7,157 | 5,680 |
| Translation differences, net | <u>4,593</u> | <u>1,891</u> |
| Total net gain on foreign exchange operations | <u><u>11,750</u></u> | <u><u>7,571</u></u> |

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | Year ended 31 December 2009 | Year ended 31 December 2008 |
|---|--|--|
| Fee and commission income: | | |
| Settlement and cash operations with clients | 3,574 | 3,894 |
| Foreign exchange transactions | 1,869 | 497 |
| Plastic cards operations | 51 | 51 |
| Other | <u>308</u> | <u>253</u> |
| Total fee and commission income | <u><u>5,802</u></u> | <u><u>4,695</u></u> |
| Fee and commission expense: | | |
| Correspondent bank services | 186 | 166 |
| Foreign exchange transactions | 16 | 21 |
| Other | <u>90</u> | <u>137</u> |
| Total fee and commission expense | <u><u>292</u></u> | <u><u>324</u></u> |

8. OPERATING EXPENSES

Operating expenses comprise:

| | Year ended 31 December 2009 | Year ended 31 December 2008 |
|--|--|--|
| Staff costs | 5,996 | 4,718 |
| Social security contributions | 1,715 | 1,545 |
| Property rentals | 1,244 | 752 |
| Taxes, other than income taxes | 692 | 409 |
| Professional services | 543 | 202 |
| Depreciation and amortization | 373 | 306 |
| Software use fees | 332 | 171 |
| Services of automated interbank settlement system | 325 | 268 |
| Security expenses | 287 | 280 |
| Stationery | 208 | 165 |
| Vehicles maintenance and fuel expenses | 174 | 202 |
| Communications | 156 | 130 |
| Termination compensation to a Supervisory Council member | - | 211 |
| Other expenses | 797 | 452 |
| Total operating expenses | 12,842 | 9,811 |

9. OTHER INCOME

Other income comprises:

| | Year ended 31 December 2009 | Year ended 31 December 2008 |
|---|--|--|
| Proceeds from operating leases | 107 | 195 |
| Net gain on disposal of property, equipment and intangible assets | 2 | 18 |
| Other | 53 | 45 |
| Total other income | 162 | 258 |

10. INCOME TAXES

The Bank provides for current taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2009 and 2008 the tax rate for Belarusian banks was 24% for the republican tax and 3% for the municipal tax. The rates were charged successively. Therefore, in 2009 and 2008 the combined rate was 26.28%.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income.

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.

Temporary differences as of 31 December 2009 and 2008 comprise:

| | 31 December 2009 | 31 December 2008 |
|---|-----------------------------|-----------------------------|
| Deductible temporary differences: | | |
| Loans to customers | 1,198 | 665 |
| Property, equipment and intangible assets | 1,158 | 393 |
| Other liabilities | 695 | 226 |
| Other assets | 275 | 194 |
| Derivative financial instruments | 81 | - |
| Provisions for guarantees and other contingent liabilities | - | 208 |
| Other deductible temporary differences | - | 44 |
| | <hr/> | <hr/> |
| Total deductible temporary differences | 3,407 | 1,730 |
| | <hr/> | <hr/> |
| Taxable temporary differences: | | |
| Accrued interest income | (913) | (307) |
| Investments held to maturity | (270) | - |
| Loans to banks and other financial institutions | (263) | (1,949) |
| Provisions for guarantees and other contingent liabilities | (174) | - |
| Loans to customers | - | (641) |
| Investment property | - | (67) |
| Other taxable temporary differences | (19) | (43) |
| | <hr/> | <hr/> |
| Total taxable temporary differences | (1,639) | (3,007) |
| | <hr/> | <hr/> |
| Net deductible/(taxable) temporary differences: | 1,768 | (1,277) |
| | <hr/> | <hr/> |
| Deferred tax assets/(liabilities) at the combined statutory tax rate (26.28%) | 465 | (336) |
| Less deferred tax assets not recognized | (465) | - |
| | <hr/> | <hr/> |
| Net deferred income tax assets/(liabilities) | - | (336) |
| | <hr/> <hr/> | <hr/> <hr/> |

Relationships between income 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 | 11,395 | 6,474 |
| | <hr/> | <hr/> |
| Combined statutory tax rate | 26.28% | 26.28% |
| Tax at statutory tax rate | 2,995 | 1,701 |
| Tax effect of permanent differences | (469) | 120 |
| Change in deferred tax assets not recognized | 465 | (464) |
| | <hr/> | <hr/> |
| Income tax expense | 2,991 | 1,357 |
| | <hr/> | <hr/> |
| Current income tax expense | 3,327 | 1,021 |
| Deferred income tax (credit)/expense | (336) | 336 |
| | <hr/> | <hr/> |
| Income tax expense | 2,991 | 1,357 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

| | Year ended 31 December 2009 | Year ended 31 December 2008 |
|--|--|--|
| Deferred tax liabilities at beginning of the period | 336 | - |
| Deferred income tax (credit)/expense | <u>(336)</u> | <u>336</u> |
| Deferred tax liabilities at end of the period | <u>-</u> | <u>336</u> |

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

| | Year ended 31 December 2009 | Year ended 31 December 2008 |
|--|--|--|
| Unrecognized deferred tax assets at beginning of the period | - | 464 |
| Change in unrecognized deferred tax assets | <u>465</u> | <u>(464)</u> |
| Unrecognized deferred tax assets at end of the period | <u>465</u> | <u>-</u> |

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

Cash and balances with the National Bank comprise:

| | 31 December 2009 | 31 December 2008 |
|---|-----------------------------|-----------------------------|
| Cash | 11,557 | 6,428 |
| Correspondent account with the National Bank | 10,408 | 1,987 |
| Balance on reserve deposit account with the National Bank | <u>631</u> | <u>826</u> |
| Total cash and balances with the National Bank | <u>22,596</u> | <u>9,241</u> |

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

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

| | 31 December 2009 | 31 December 2008 |
|--|-----------------------------|-----------------------------|
| Cash and balances with the National Bank | 22,596 | 9,241 |
| Due from banks and other financial institutions in OECD countries with the original maturity within 90 days | <u>23,179</u> | <u>4,290</u> |
| | 45,775 | 13,531 |
| Less minimum reserve deposit with the National Bank | <u>(631)</u> | <u>(826)</u> |
| Total cash and cash equivalents | <u>45,144</u> | <u>12,705</u> |

12. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

| | 31 December 2009 | 31 December 2008 |
|--|-----------------------------|-----------------------------|
| Time deposits | 26,370 | 11,541 |
| Correspondent accounts | 25,228 | 7,691 |
| Settlements with Belarusian Currency and Stock Exchange | 669 | 1,036 |
| | <hr/> | <hr/> |
| Total due from banks and other financial institutions | 52,267 | 20,268 |
| | <hr/> <hr/> | <hr/> <hr/> |

As of 31 December 2009 and 2008 the Bank had exposures to two banks, totalling BYR 31,946 million and BYR 10,000 million, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2009 and 2008 included in balances due from banks were fixed amounts of BYR 57 million and BYR 55 million, respectively, placed as guarantee deposits on letters of credit, operations with plastic cards and travel cheques and settlements with the international payment systems.

13. LOANS TO CUSTOMERS

Loans to customers comprise:

| | 31 December 2009 | 31 December 2008 |
|--------------------------------------|-----------------------------|-----------------------------|
| Loans to customers | 47,886 | 28,917 |
| Net investment in finance leases | 1,931 | 1,786 |
| | <hr/> | <hr/> |
| | 49,817 | 30,703 |
| Less allowance for impairment losses | (5,139) | (2,905) |
| | <hr/> | <hr/> |
| Total loans to customers | 44,678 | 27,798 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

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

| | 31 December 2009 | 31 December 2008 |
|--|-----------------------------|-----------------------------|
| Loans collateralized by real estate | 15,887 | 10,402 |
| Loans collateralized by inventory | 13,150 | 8,845 |
| Loans collateralized by vehicles | 6,183 | 1,626 |
| Loans collateralized by equipment | 5,204 | 4,846 |
| Loans collateralized by corporate and individuals guarantees | 5,081 | 1,606 |
| Loans collateralized by liens over receivables | 2,852 | 2,876 |
| Other collateral | 1,309 | 288 |
| Unsecured loans | 151 | 214 |
| | <hr/> | <hr/> |
| | 49,817 | 30,703 |
| Less allowance for impairment losses | (5,139) | (2,905) |
| | <hr/> | <hr/> |
| Total loans to customers | 44,678 | 27,798 |
| | <hr/> <hr/> | <hr/> <hr/> |

| Analysis by sector: | 31 December 2009 | 31 December 2008 |
|--------------------------------------|-----------------------------|-----------------------------|
| Wholesale trade | 25,270 | 13,476 |
| Manufacturing | 9,778 | 6,522 |
| Individuals | 5,374 | 1,306 |
| Real estate operations | 5,084 | 6,127 |
| Retail trade | 2,759 | 2,057 |
| Transport | 621 | 451 |
| Other | 931 | 764 |
| | <u>49,817</u> | <u>30,703</u> |
| Less allowance for impairment losses | <u>(5,139)</u> | <u>(2,905)</u> |
| Total loans to customers | <u><u>44,678</u></u> | <u><u>27,798</u></u> |

Loans to individuals comprise the following products:

| | 31 December 2009 | 31 December 2008 |
|--------------------------------------|-----------------------------|-----------------------------|
| Car loans | 4,411 | 357 |
| Consumer loans | 934 | 911 |
| Housing loans | 29 | 38 |
| | <u>5,374</u> | <u>1,306</u> |
| Less allowance for impairment losses | <u>(268)</u> | <u>(56)</u> |
| Total loans to individuals | <u><u>5,106</u></u> | <u><u>1,250</u></u> |

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

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

| | 31 December 2009 | | |
|--|---|--|---|
| | Loans before allowance for impairment losses | Allowance for impairment losses | Loans less allowance for impairment losses |
| Loans determined to be impaired individually | 29,197 | (3,827) | 25,370 |
| Loans for which impairment is identified on the group basis | <u>20,620</u> | <u>(1,312)</u> | <u>19,308</u> |
| Total loans to customers | <u><u>49,817</u></u> | <u><u>(5,139)</u></u> | <u><u>44,678</u></u> |
| | 31 December 2008 | | |
| | Loans before allowance for impairment losses | Allowance for impairment losses | Loans less allowance for impairment losses |
| Loans determined to be impaired individually | 18,046 | (1,873) | 16,173 |
| Loans for which impairment is identified on the group basis | <u>12,657</u> | <u>(1,032)</u> | <u>11,625</u> |
| Total loans to customers | <u><u>30,703</u></u> | <u><u>(2,905)</u></u> | <u><u>27,798</u></u> |

The components of 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 | 1,536 | 1,282 |
| From one year to five years | 766 | 974 |
| | <hr/> | <hr/> |
| Minimum lease payments | 2,302 | 2,256 |
| Less: unearned finance income | (371) | (470) |
| | <hr/> | <hr/> |
| Net investment in finance lease | <u>1,931</u> | <u>1,786</u> |
| | | |
| Current portion | 1,239 | 975 |
| Long-term portion | 692 | 811 |
| | <hr/> | <hr/> |
| Net investment in finance lease | <u>1,931</u> | <u>1,786</u> |

14. INVESTMENTS HELD TO MATURITY

As of 31 December 2009 the Bank had investments held to maturity totalling BYR 27,095 million. The investments held to maturity comprise bonds issued by Belarusian banks with the interest rate of 9-11% for investments in foreign currency and 17.5-19% for investments in Belarusian Rouble.

15. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

| | Buildings | Computer equipment | Vehicles | Office furniture and other fixed assets | Construction in progress | Intangible assets | Investment property | Total |
|--|------------|--------------------|------------|---|--------------------------|-------------------|---------------------|--------------|
| At historic cost/cost restated for hyperinflation | | | | | | | | |
| 31 December 2007 | 302 | 946 | 547 | 1,592 | 7 | 353 | 243 | 3,990 |
| Additions | - | 137 | 35 | 38 | 1 | 80 | - | 291 |
| Disposals | (26) | (101) | (54) | (45) | (7) | (120) | - | (353) |
| 31 December 2008 | 276 | 982 | 528 | 1,585 | 1 | 313 | 243 | 3,928 |
| Additions | 122 | 450 | 384 | 349 | 30 | 225 | - | 1,560 |
| Disposals | - | (145) | (48) | (126) | (1) | (30) | - | (350) |
| Transfer from investment property | 243 | - | - | - | - | - | (243) | - |
| 31 December 2009 | 641 | 1,287 | 864 | 1,808 | 30 | 508 | - | 5,138 |
| Accumulated depreciation | | | | | | | | |
| 31 December 2007 | 126 | 553 | 448 | 983 | - | 233 | 24 | 2,367 |
| Charge for the year | 29 | 90 | 34 | 94 | - | 54 | 5 | 306 |
| Eliminated on disposal | (11) | (80) | (44) | (34) | - | (94) | - | (263) |
| 31 December 2008 | 144 | 563 | 438 | 1,043 | - | 193 | 29 | 2,410 |
| Charge for the year | 37 | 121 | 28 | 100 | - | 87 | - | 373 |
| Eliminated on disposal | - | (126) | (44) | (93) | - | (30) | - | (293) |
| Transfer from investment property | 29 | - | - | - | - | - | (29) | - |
| 31 December 2009 | 210 | 558 | 422 | 1,050 | - | 250 | - | 2,490 |
| Net book value | | | | | | | | |
| 31 December 2008 | 132 | 419 | 90 | 542 | 1 | 120 | 214 | 1,518 |
| 31 December 2009 | 431 | 729 | 442 | 758 | 30 | 258 | - | 2,648 |

16. OTHER ASSETS

Other assets comprise:

| | 31 December 2009 | 31 December 2008 |
|--|---------------------|---------------------|
| Other financial assets: | | |
| Settlements on plastic cards and cheques operations | 14 | 32 |
| Derivatives | 7 | - |
| Accrued income | 5 | 22 |
| | <u>26</u> | <u>54</u> |
| Other non-financial assets: | | |
| Prepayments for capital investment | 376 | - |
| Prepaid expenses | 90 | 54 |
| Inventory | 88 | 79 |
| Taxes recoverable and prepaid, other than income taxes | 43 | 39 |
| Other advances and prepayments | 55 | 20 |
| | <u>678</u> | <u>246</u> |

As at 31 December 2009 derivative financial instruments comprise:

| | Foreign currency forward contracts | Nominal amount (in units of purchased currency) | Fair value | |
|---------|---------------------------------------|--|------------|--------------|
| | | | Asset | Liability |
| USD/BYR | | USD 500,000 | 7 | - |
| EUR/BYR | | EUR 500,000 | - | (41) |
| USD/BYR | | USD 3,500,000 | - | (13) |
| EUR/BYR | | EUR 1,000,000 | - | (92) |
| | | | <u>7</u> | <u>(146)</u> |

As at 31 December 2009 derivative financial instruments comprise forward contracts with the National Bank at fair value of BYR 7 million (assets) and BYR 146 million (liabilities) (Note 19).

17. DUE TO BANKS

As of 31 December 2009 due to banks comprised one loan from a Belarusian bank in the amount of BYR 2,891 million.

18. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2009 | 31 December 2008 |
|---|---------------------|---------------------|
| Current accounts and deposits repayable on demand | 21,354 | 19,024 |
| Time deposits | 7,050 | 1,250 |
| | <u>28,404</u> | <u>20,274</u> |

| Analysis by sector: | 31 December 2009 | 31 December 2008 |
|--------------------------------|-----------------------------|-----------------------------|
| Wholesale trade | 7,044 | 8,414 |
| Individuals | 5,053 | 56 |
| Manufacturing | 4,263 | 970 |
| Retail trade | 2,419 | 4,186 |
| Construction | 1,873 | 3,204 |
| Education | 1,453 | 922 |
| Real estate | 1,270 | 820 |
| Transport | 946 | 180 |
| Advertising | 404 | 426 |
| Other | 3,679 | 1,096 |
| | <hr/> | <hr/> |
| Total customer accounts | 28,404 | 20,274 |
| | <hr/> <hr/> | <hr/> <hr/> |

As of 31 December 2009 and 2008 customer accounts amounting to BYR 524 million and BYR 140 million, respectively, were held as security against a letters of credit issued by Bank.

19. OTHER LIABILITIES

Other liabilities comprise:

| | 31 December 2009 | 31 December 2008 |
|---|-----------------------------|-----------------------------|
| Other financial liabilities: | | |
| Payables to employees | 695 | 426 |
| Transit and settlement accounts | 219 | 286 |
| Derivatives (Note 16) | 146 | - |
| Other payables | 35 | 24 |
| | <hr/> | <hr/> |
| | 1,095 | 736 |
| Other non-financial liabilities: | | |
| Prepayments received | 109 | 109 |
| Taxes payable, other than income taxes | 80 | 78 |
| Provision for guarantees and other contingent liabilities | 72 | 43 |
| Other | 61 | 1 |
| | <hr/> | <hr/> |
| Total other liabilities | 1,417 | 967 |
| | <hr/> <hr/> | <hr/> <hr/> |

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

20. SUBORDINATED DEBT

As of 31 December 2009 the Bank had the subordinated debt from Fransabank S.A.L. in the amount of USD 12.07 million, which corresponds to BYR 34,557 million, with a maturity date on 30 November 2016. Interest rate on the debt is floating and was set as LIBOR+6%. Repayment of this debt is subordinate to the repayment of the Bank's liabilities to all other creditors.

21. SHARE CAPITAL

As of 31 December 2009 and 2008 the authorized, issued and fully paid share capital comprised 26,856,268 and 12,441,918 ordinary shares with a par value of BYR 2,524 each, respectively, at historical cost before hyperinflation effect. All shares are ranked equally and carry one vote.

The Bank held 50,852 treasury shares of the Bank as of 31 December 2008.

During the year ended 31 December 2009 and 2008 the Bank issued 14,414,350 and 6,095,171 ordinary shares, respectively.

During the years ended 31 December 2009 and 2008 the Bank did not declare and pay dividends.

The Bank's retained earnings distributable to shareholders are limited to the amount of funds that are stated in the statutory financial statements prepared according to the Belarusian accounting rules. As per these financial statements at 31 December 2009 and 2008 the retained earnings comprised BYR 15,864 million and BYR 5,176 million, respectively (not audited). Non-distributable funds comprise tangible assets revaluation fund and reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities. In accordance with the legislation reserve fund is created for the mentioned objectives in the amount of no less than 5% of the Bank's share capital stated in the financial statements under Belarusian accounting rules.

22. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

The Bank uses the similar credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance 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: | | |
| Commitments on loans and unused credit lines | 7,877 | 4,730 |
| Guarantees issued | 1,515 | 752 |
| Cash-covered letters of credit | 524 | 140 |
| Letters of credit, not collateralized by cash | 356 | - |
| | <hr/> | <hr/> |
| Total contingent liabilities and credit commitments | 10,272 | 5,622 |

Legal proceedings – In the normal course of business, claims against the Bank might arise from customers and counterparties. Management believes that as of 31 December 2009 and 2008 there were no existing or potential cases in respect of which material losses would require accrual and accordingly no provision has been made in these financial statements.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As of 31 December 2009 and 2008 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

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

23. TRANSACTIONS WITH RELATED PARTIES

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

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank;
- (b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;
- (d) Members of key management personnel of the Bank or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding as of 31 December 2009 and 2008 with related parties:

| | 31 December 2009 | | 31 December 2008 | |
|--|------------------------|--|------------------------|--|
| | Related party balances | Total category as per the financial statements caption | Related party balances | Total category as per the financial statements caption |
| Due from banks and other financial institutions | - | 52,267 | 1,891 | 20,268 |
| - <i>shareholders</i> | - | | 1,891 | |
| Loans to customers, gross | 75 | 49,817 | 49 | 30,703 |
| - <i>key management personnel of the Bank</i> | 75 | | 49 | |
| Allowance for impairment losses on loans to customers | (1) | (5,139) | (2) | (2,905) |
| - <i>key management personnel of the Bank</i> | (1) | | (2) | |
| Customer accounts | (769) | (28,404) | (597) | (20,274) |
| - <i>entities under common control with the Bank</i> | (731) | | (597) | |
| - <i>key management personnel of the Bank</i> | (38) | | - | |
| Subordinated debt | (34,357) | (34,357) | - | - |
| - <i>shareholders</i> | (34,357) | | - | |
| Contingent liabilities and credit commitments | 25 | 10,272 | 15 | 5,622 |
| - <i>key management personnel of the Bank</i> | 25 | | 15 | |

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

| | Year ended 31 December 2009 | | Year ended 31 December 2008 | |
|---|--------------------------------|--|--------------------------------|--|
| | Related party transactions | Total category as per the financial statements caption | Related party transactions | Total category as per the financial statements caption |
| Interest income | 17 | 10,384 | 435 | 4,163 |
| - <i>shareholders</i> | 1 | | 4 | |
| - <i>entities under common control with the Bank</i> | - | | 427 | |
| - <i>key management personnel of the Bank</i> | 16 | | 4 | |
| Interest expense | 204 | 1,082 | - | 496 |
| - <i>shareholders</i> | 201 | | - | |
| - <i>key management personnel of the Bank</i> | 3 | | - | |
| Fee and commission income | 19 | 5,802 | 25 | 4,695 |
| - <i>shareholders</i> | 16 | | 10 | |
| - <i>entities under common control with the Bank</i> | 3 | | 15 | |
| Fee and commission expense | - | 292 | 150 | 324 |
| - <i>shareholders</i> | - | | 150 | |
| Staff costs | 1,193 | 5,996 | 949 | 4,718 |
| - <i>key management personnel of the Bank, short-term benefits</i> | 1,193 | | 909 | |
| - <i>key management personnel of the Bank, termination compensation</i> | - | | 40 | |
| Termination compensation to a Supervisory Council member | - | - | 211 | 211 |
| - <i>Supervisory Council member, termination compensation</i> | - | | 211 | |

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

| | 31 December 2009 | | 31 December 2008 | |
|--|-------------------------|-------------------|-------------------------|-------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Balances with the National Bank of the Republic of Belarus | 10,408 | 10,408 | 1,987 | 1,987 |
| Due from banks and other financial institutions | 52,267 | 52,267 | 20,268 | 20,268 |
| Investments held to maturity | 27,095 | 27,215 | - | - |
| Other financial assets | 26 | 26 | 54 | 54 |
| Due to banks | 2,891 | 2,891 | - | - |
| Other financial liabilities | 1,095 | 1,095 | 736 | 736 |
| Subordinated debt | 34,557 | 34,557 | - | - |

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

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

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

| | 31 December 2009 | | |
|--|-------------------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 |
| Derivative financial instruments (assets) | - | 7 | - |
| Derivative financial instruments (liabilities) | - | 146 | - |

25. REGULATORY MATTERS

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

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

As of 31 December 2009 the Bank's total capital amount for Capital Adequacy purposes was BYR 116,864 million and tier 1 capital amount was BYR 82,307 million with ratios of 99.2% and 69.2%, respectively.

As of 31 December 2008 the Bank's total capital amount for capital adequacy purposes and tier 1 capital amount was BYR 37,315 million with ratios of 69.0%.

26. CAPITAL MANAGEMENT

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

The Bank's management reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with a quantified assessment of the risks it undertakes (risk weighted assets). The Finance Committee of the Bank considers weighted average cost of capital and risks associated with each class of assets on quarterly basis. The shareholders balance Bank's overall capital structure through the share capital increase by means of cash contributions by the shareholders and issuance of subordinated debt.

27. RISK MANAGEMENT POLICIES

Risk management is fundamental to the banking business and is an essential element of the Bank's operations. The Bank exercises systems approach to risk management, having established the unified standards for identification, evaluation and mitigation of risks based on recommendations of the National Bank and Basle Committee on Banking Supervision.

In accordance with the above mentioned standards the Bank has developed and duly implemented risk management procedures for main types of risks inherent to the Bank's operations, including credit, liquidity, foreign exchange, interest rate and operational risks. A description of the Bank's risk management policies in relation to those risks follows.

Credit risk

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Limits on the level of credit risk by corporate borrowers and banks are reviewed and approved by the Credit Committee and cover on and off-balance sheet exposures. Actual exposures against limits are monitored daily. Where appropriate and in case of most loans, the Bank obtains collateral and corporate and personal guaranties. Credit risk and the value of collateral are monitored on a continuous basis and subject to monthly or more frequent reviews.

Maximum exposure to credit risk

The Bank's maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

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

| | 31 December 2009 | 31 December 2008 |
|---|-----------------------------|-----------------------------|
| | Maximum exposure | Maximum exposure |
| Balances with the National Bank | 10,408 | 1,987 |
| Due from banks and other financial institutions | 52,267 | 20,268 |
| Loans to customers | 44,678 | 27,798 |
| Investments held to maturity | 27,095 | - |
| Other financial assets | 26 | 54 |
| Commitments on loans and unused credit lines | 7,877 | 4,730 |
| Guarantees issued | 1,515 | 752 |
| Letters of credit, not collateralized by cash | 356 | - |

Financial assets are graded according to the current credit ratings that have been issued by internationally regarded agencies.

The following table details the credit ratings of financial assets held by the Bank using the grades of Fitch Ratings and Standard&Poor's agencies:

| | AA | A | BBB | B | C | Not rated | 31 December 2009 |
|---|-----------|----------|------------|----------|----------|----------------------|-----------------------------|
| | | | | | | | Total |
| Balances with the National Bank | - | - | - | 10,408 | - | - | 10,408 |
| Due from banks and other financial institutions | 20,354 | 2,825 | 244 | 23,770 | - | 5,074 | 52,267 |
| Loans to customers | - | - | - | - | - | 44,678 | 44,678 |
| Investments held to maturity | - | - | - | 24,371 | - | 2,724 | 27,095 |
| Other financial assets | - | - | - | - | - | 26 | 26 |
| | | | | | | | 31 December 2008 |
| | AA | A | BBB | B | C | Not rated | Total |
| Balances with the National Bank | - | - | - | 1,987 | - | - | 1,987 |
| Due from banks and other financial institutions | - | 4,286 | 1,013 | 6,883 | 1,895 | 6,191 | 20,268 |
| Loans to customers | - | - | - | - | - | 27,798 | 27,798 |
| Other financial assets | - | - | - | - | - | 54 | 54 |

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

The carrying value of impaired loans to customers is disclosed in Note 13. Except for the disclosed in the Note 13 as of 31 December 2009 and 2008 the Bank had neither past due nor impaired financial assets.

Geographical concentration

The Bank exercises control over the risk of changes in the legislation and assesses its influence on the Bank's activities. The Bank's Credit Committee sets up country limits for operations with foreign counterparties.

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

| | Belarus | CIS countries | OECD countries | Other countries | 31 December 2009 Total |
|---|----------------|---------------|----------------|-----------------|------------------------|
| FINANCIAL ASSETS: | | | | | |
| Cash and balances with the National Bank | 21,965 | - | - | - | 21,965 |
| Due from banks and other financial institutions | 28,573 | 275 | 23,179 | 240 | 52,267 |
| Loans to customers | 44,678 | - | - | - | 44,678 |
| Investments held to maturity | 27,095 | - | - | - | 27,095 |
| Other financial assets | 26 | - | - | - | 26 |
| TOTAL FINANCIAL ASSETS | 122,337 | 275 | 23,179 | 240 | 146,031 |
| FINANCIAL LIABILITIES: | | | | | |
| Due to banks | 2,891 | - | - | - | 2,891 |
| Customer accounts | 27,869 | 8 | 39 | 488 | 28,404 |
| Other financial liabilities | 1,095 | - | - | - | 1,095 |
| Subordinated debt | - | - | - | 34,557 | 34,557 |
| TOTAL FINANCIAL LIABILITIES | 31,855 | 8 | 39 | 35,045 | 66,947 |
| NET POSITION | 90,482 | 267 | 23,140 | (34,805) | |
| | | | | | |
| | Belarus | CIS countries | OECD countries | Other countries | 31 December 2008 Total |
| FINANCIAL ASSETS: | | | | | |
| Cash and balances with the National Bank | 8,415 | - | - | - | 8,415 |
| Due from banks and other financial institutions | 12,803 | 1,040 | 4,290 | 2,135 | 20,268 |
| Loans to customers | 27,798 | - | - | - | 27,798 |
| Other financial assets | 54 | - | - | - | 54 |
| TOTAL FINANCIAL ASSETS | 49,070 | 1,040 | 4,290 | 2,135 | 56,535 |
| FINANCIAL LIABILITIES: | | | | | |
| Customer accounts | 20,229 | 4 | 41 | - | 20,274 |
| Other financial liabilities | 736 | - | - | - | 736 |
| TOTAL FINANCIAL LIABILITIES | 20,965 | 4 | 41 | - | 21,010 |
| NET POSITION | 28,105 | 1,036 | 4,249 | 2,135 | |

Liquidity risk

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

In order to manage liquidity risk, the Finance Department prepares daily payments calendar, based on which the forecast of liquidity ratios is prepared. Additionally, calculation and analysis of liquidity ratios, minimal ratios of liquid to total assets and control of compliance with the requirements set forth by the National Bank are performed on a daily basis. Based on the analysis performed, measures are taken to manage liquidity. Prior to conclusion of transactions that may significantly influence liquidity of the Bank employees of the Finance Department and the Department of currency transactions and money markets analyze the influence of those transactions on the financial position of the Bank. The results of the analysis are passed for approval to the Management Board of the Bank.

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

| | Weighted average nominal interest rate, % | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2009 |
|---|---|------------------|------------------------|-----------------------|----------------------|-----------------|---------------------|
| | | | | | | | Total |
| FINANCIAL LIABILITIES: | | | | | | | |
| Due to banks | 6.00% | 2,906 | - | - | - | - | 2,906 |
| Customer accounts | 5.59% | 8,767 | 196 | 2,954 | 2,539 | - | 14,456 |
| Subordinated debt | 7.02% | 201 | - | 1,196 | 9,650 | 40,176 | 51,223 |
| Total interest bearing financial liabilities | | 11,874 | 196 | 4,150 | 12,189 | 40,176 | 68,585 |
| Customer accounts | | 14,586 | - | - | - | - | 14,586 |
| Other financial liabilities | | 949 | - | - | - | - | 949 |
| Commitments on loans and unused credit lines | | 7,877 | - | - | - | - | 7,877 |
| Guarantees issued | | 1,515 | - | - | - | - | 1,515 |
| Letters of credit, not collateralized by cash | | 356 | - | - | - | - | 356 |
| TOTAL FINANCIAL LIABILITIES | | 37,157 | 196 | 4,150 | 12,189 | 40,176 | 93,868 |

| | Weighted average nominal interest rate, % | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2008 |
|--|---|------------------|------------------------|-----------------------|----------------------|-----------------|---------------------|
| | | | | | | | Total |
| FINANCIAL LIABILITIES: | | | | | | | |
| Customer accounts | 13.27% | 93 | 387 | 810 | 13 | - | 1,303 |
| Total interest bearing financial liabilities | | 93 | 387 | 810 | 13 | - | 1,303 |
| Customer accounts | | 19,027 | - | - | - | - | 19,027 |
| Other financial liabilities | | 736 | - | - | - | - | 736 |
| Commitments on loans and unused credit lines | | 4,730 | - | - | - | - | 4,730 |
| Guarantees issued | | 752 | - | - | - | - | 752 |
| TOTAL FINANCIAL LIABILITIES | | 25,338 | 387 | 810 | 13 | - | 26,548 |

The following tables present an analysis of liquidity risk based on carrying values of financial assets and liabilities in the statement of financial position.

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2009 Total |
|---|------------------|------------------------|-----------------------|----------------------|-----------------|------------|-----------------------|------------------------------|
| FINANCIAL ASSETS: | | | | | | | | |
| Due from banks and other financial institutions | 25,131 | 16,632 | 8,589 | - | - | - | - | 50,352 |
| Loans to customers | 6,057 | 11,914 | 18,675 | 7,774 | - | 258 | - | 44,678 |
| Investments held to maturity | 3,037 | 5,942 | 15,392 | 2,724 | - | - | - | 27,095 |
| Total interest bearing financial assets | 34,225 | 34,488 | 42,656 | 10,498 | - | 258 | - | 122,125 |
| Cash and balances with the National Bank | 21,965 | - | - | - | - | - | - | 21,965 |
| Due from banks and other financial institutions | 1,915 | - | - | - | - | - | - | 1,915 |
| Other financial assets | 15 | - | 8 | - | - | - | 3 | 26 |
| TOTAL FINANCIAL ASSETS | 58,120 | 34,488 | 42,664 | 10,498 | - | 258 | 3 | 146,031 |
| FINANCIAL LIABILITIES: | | | | | | | | |
| Due to banks | 2,891 | - | - | - | - | - | - | 2,891 |
| Customer accounts | 8,730 | 133 | 2,750 | 2,205 | - | - | - | 13,818 |
| Subordinated debt | - | - | - | - | 34,557 | - | - | 34,557 |
| Total interest bearing financial liabilities | 11,621 | 133 | 2,750 | 2,205 | 34,557 | - | - | 51,266 |
| Customer accounts | 14,586 | - | - | - | - | - | - | 14,586 |
| Other financial liabilities | 949 | - | 146 | - | - | - | - | 1,095 |
| TOTAL FINANCIAL LIABILITIES | 27,156 | 133 | 2,896 | 2,205 | 34,557 | - | - | 66,947 |
| Liquidity gap | 30,964 | 34,355 | 39,768 | 8,293 | (34,557) | | | |
| Interest sensitivity gap | 22,604 | 34,355 | 39,906 | 8,293 | (34,557) | | | |
| Cumulative interest sensitivity gap | 22,604 | 56,959 | 96,865 | 105,158 | 70,601 | | | |
| Cumulative interest sensitivity gap as a percentage of total financial assets | 15% | 39% | 66% | 72% | 48% | | | |

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Overdue | Maturity undefined | 31 December 2008 Total |
|---|------------------|------------------------|-----------------------|----------------------|------------|-----------------------|------------------------------|
| FINANCIAL ASSETS: | | | | | | | |
| Due from banks and other financial institutions | 11,539 | - | - | - | - | - | 11,539 |
| Loans to customers | 4,070 | 15,705 | 2,324 | 5,026 | 673 | - | 27,798 |
| Total interest bearing financial assets | 15,609 | 15,705 | 2,324 | 5,026 | 673 | - | 39,337 |
| Cash and balances with the National Bank | 8,415 | - | - | - | - | - | 8,415 |
| Due from banks and other financial institutions | 8,729 | - | - | - | - | - | 8,729 |
| Other financial assets | 51 | - | - | - | - | 3 | 54 |
| TOTAL FINANCIAL ASSETS | 32,804 | 15,705 | 2,324 | 5,026 | 673 | 3 | 56,535 |
| FINANCIAL LIABILITIES: | | | | | | | |
| Customer accounts | 80 | 368 | 787 | 12 | - | - | 1,247 |
| Total interest bearing financial liabilities | 80 | 368 | 787 | 12 | - | - | 1,247 |
| Customer accounts | 19,027 | - | - | - | - | - | 19,027 |
| Other financial liabilities | 736 | - | - | - | - | - | 736 |
| TOTAL FINANCIAL LIABILITIES | 19,843 | 368 | 787 | 12 | - | - | 21,010 |
| Liquidity gap | 12,961 | 15,337 | 1,537 | 5,014 | | | |
| Interest sensitivity gap | 15,529 | 15,337 | 1,537 | 5,014 | | | |
| Cumulative interest sensitivity gap | 15,529 | 30,866 | 32,403 | 37,417 | | | |
| Cumulative interest sensitivity gap as a percentage of total financial assets | 27% | 55% | 57% | 66% | | | |

Market risk

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

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

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of financial instruments or future cash flows arising on financial instruments. The Bank's interest rate policy is primarily directed to provide adequate interest rate margin and stable level of net interest income. The Bank's interest rate policy is analyzed and developed by the Finance Committee and the Credit Committee and approved by the Management Board.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes" of interest rates. The level of these changes is determined by management. The sensitivity analysis represents the annual effect of 5% increase/reduction in interest rates in respect of floating rate financial instruments existing as of 31 December 2009 on the net profit of the Bank, provided all other variables were held constant. Additionally the calculation includes the effect of reinvestment of fixed-rate instruments at new market rates as they mature.

Impact on profit before taxes:

| | At 31 December 2009 | |
|---|----------------------|----------------------|
| | Interest rate +5% | Interest rate -5% |
| Impact on profit before taxes: | | |
| Financial assets: | | |
| Due from banks and other financial institutions | 1,186 | (1,186) |
| Investments held to maturity | 947 | (947) |
| Financial liabilities: | | |
| Subordinated debt | <u>(1,718)</u> | <u>1,718</u> |
| Net impact on profit before taxes | <u>415</u> | <u>(415)</u> |
| Net impact on comprehensive income | <u>415</u> | <u>(415)</u> |

During the year ended 31 December 2008 the Bank did not have any financial instruments at floating rates carried at amortized cost or financial instruments at fixed rates carried at fair value and possible changes in market interest rates would not affect the net profit for the year ended 31 December 2008 and the Bank's comprehensive income as of 31 December 2008.

The management of the Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Currency risk

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

The Bank has established currency exposure limits. These limits comply with the minimum requirements of the National Bank. For currencies with significantly fluctuating exchange rate exposure the Bank takes measures to minimize open positions. Decisions on currency exposure optimization are approved by the Deputy Chairman in charge of currency operations.

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

| | BYR | USD 1 USD = 2,863 BYR | EUR 1 EUR = 4,106.11 BYR | RUB 1 RUB = 94.66 BYR | Other currencies | 31 December 2009 Total |
|---|---------------|---------------------------------------|--|---------------------------------------|-----------------------------|---------------------------------------|
| FINANCIAL ASSETS: | | | | | | |
| Cash and balances with the National Bank | 18,185 | 1,656 | 544 | 1,273 | 307 | 21,965 |
| Due from banks and other financial institutions | 15,334 | 33,354 | 3,421 | 139 | 19 | 52,267 |
| Loans to customers | 33,073 | 10,054 | 1,551 | - | - | 44,678 |
| Investments held to maturity | 19,200 | 6,628 | 1,267 | - | - | 27,095 |
| Other financial assets | 26 | - | - | - | - | 26 |
| TOTAL FINANCIAL ASSETS | 85,818 | 51,692 | 6,783 | 1,412 | 326 | 146,031 |
| FINANCIAL LIABILITIES: | | | | | | |
| Due to banks | - | 2,891 | - | - | - | 2,891 |
| Customer accounts | 18,541 | 6,365 | 2,519 | 564 | 415 | 28,404 |
| Other financial liabilities | 1,094 | - | 1 | - | - | 1,095 |
| Subordinated debt | - | 34,557 | - | - | - | 34,557 |
| TOTAL FINANCIAL LIABILITIES | 19,635 | 43,813 | 2,520 | 564 | 415 | 66,947 |
| CURRENCY POSITION | 66,183 | 7,879 | 4,263 | 848 | (89) | |

Derivative financial instruments

Fair value of the derivatives contracts is included in the currency analysis presented above and the following table presents further analysis of currency risk of derivative financial instruments and spot contracts as of 31 December 2009:

| | BYR | USD 1 USD = 2,863 BYR | EUR 1 EUR = 4,106.11 BYR | RUB 1 RUB = 94.66 BYR | Other currencies | 31 December 2009 Total |
|--|-----------------|---------------------------------------|--|---------------------------------------|-----------------------------|---------------------------------------|
| Obligations on derivative contracts | (19,334) | - | - | - | - | (19,334) |
| Claims on derivative contracts | - | 11,452 | 6,159 | - | - | 17,611 |
| NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION | (19,334) | 11,452 | 6,159 | - | - | |
| TOTAL CURRENCY POSITION | 46,849 | 19,331 | 10,422 | 848 | (89) | |

| | BYR | USD 1 USD = 2,200 BYR | EUR 1 EUR = 3,077.14 BYR | RUB 1 RUB = 76.89 BYR | Other currencies | 31 December 2008 Total |
|---|---------------|---------------------------------------|--|---------------------------------------|-----------------------------|---------------------------------------|
| FINANCIAL ASSETS: | | | | | | |
| Cash and balances with the National Bank | 7,116 | 652 | 209 | 400 | 38 | 8,415 |
| Due from banks and other financial institutions | 10,012 | 4,870 | 4,964 | 389 | 33 | 20,268 |
| Loans to customers | 17,597 | 10,201 | - | - | - | 27,798 |
| Other financial assets | 51 | 3 | - | - | - | 54 |
| TOTAL FINANCIAL ASSETS | 34,776 | 15,726 | 5,173 | 789 | 71 | 56,535 |
| FINANCIAL LIABILITIES: | | | | | | |
| Customer accounts | 18,321 | 941 | 416 | 596 | - | 20,274 |
| Other financial liabilities | 719 | 17 | - | - | - | 736 |
| TOTAL FINANCIAL LIABILITIES | 19,040 | 958 | 416 | 596 | - | 21,010 |
| CURRENCY POSITION | 15,736 | 14,768 | 4,757 | 193 | 71 | |

Currency risk sensitivity

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

| | 31 December 2009 | | 31 December 2008 | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | BYR/USD +30% | BYR/USD -10% | BYR/USD +30% | BYR/USD -10% |
| Impact on profit or loss before taxation | 5,799 | (1,933) | 4,430 | (1,477) |
| Impact on comprehensive income | 5,799 | (1,933) | 4,430 | (1,477) |
| | 31 December 2009 | | 31 December 2008 | |
| | BYR/EUR +30% | BYR/EUR -10% | BYR/EUR +30% | BYR/EUR -10% |
| Impact on profit or loss before taxation | 3,127 | (1,042) | 1,427 | (476) |
| Impact on comprehensive income | 3,127 | (1,042) | 1,427 | (476) |
| | 31 December 2009 | | 31 December 2008 | |
| | BYR/RUB +30% | BYR/RUB -10% | BYR/RUB +30% | BYR/RUB -10% |
| Impact on profit or loss before taxation | 254 | (85) | 58 | (19) |
| Impact on comprehensive income | 254 | (85) | 58 | (19) |

Limitations of sensitivity analysis

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

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

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

28. VOLATILITY IN GLOBAL AND LOCAL MARKETS

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

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

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

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

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

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

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

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

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

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

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

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