

**“Fransabank”
Open Joint Stock Company**

Financial Statements
For the Year Ended 31 December 2008

“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 2008

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditors’ report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of “Fransabank” Open Joint Stock Company (the “Bank”).

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

In preparing the financial statements, management is responsible for:

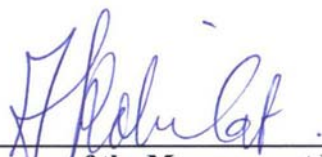
- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial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

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal control, throughout the Bank;
- maintaining proper accounting records that 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 2008 were authorized for issue on 1 June 2009 by the Management Board.

On behalf of the Management Board:



Chairman of the Management Board
Ibrahim Koleilat
1 June 2009
Minsk



Chief Accountant
Igor V. Verbenko
1 June 2009
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 balance sheet as of 31 December 2008, the income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Basis for Qualified Opinion

The Bank did not disclose the name of its ultimate controlling party for the period before 12 September 2008, the date of acquisition of the Bank by Fransa Holding S.A.L. In our opinion, this is a departure from the International Financial Reporting Standards.

Qualified Opinion

In our opinion, except for non-disclosure of the ultimate controlling party for the period before 12 September 2008, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and its financial performance and cash flows for the year then ended, in accordance with IFRS.

Deloitte & Touche

1 June 2009


Minsk

“FRANSABANK” OPEN JOINT STOCK COMPANY

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

	Notes	Year ended 31 December 2008	Year ended 31 December 2007 (unaudited)
Interest income	4, 21	4,163	3,873
Interest expense	4	(496)	(1,073)
NET INTEREST INCOME BEFORE (RECOVERY OF PROVISION)/PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		3,667	2,800
Recovery of provision/(provision) for impairment losses on interest bearing assets	5	428	(174)
NET INTEREST INCOME		4,095	2,626
Net gain on foreign exchange operations	6	7,571	4,064
Fee and commission income	7, 21	4,695	3,663
Fee and commission expense	7, 21	(324)	(138)
Net realized loss on investments available for sale		-	(4)
Other provisions	5	(10)	(33)
Other income	9	258	114
NET NON-INTEREST INCOME		12,190	7,666
OPERATING INCOME		16,285	10,292
OPERATING EXPENSES	8, 21	(9,811)	(7,481)
PROFIT BEFORE INCOME TAXES		6,474	2,811
Income tax expense	10	(1,357)	(896)
NET PROFIT		5,117	1,915

On behalf of the Management Board:


 Chairman of the Management Board
 Ibrahim Koleilat
 1 June 2009
 Minsk


 Chief Accountant
 Igor V. Verbenko
 1 June 2009
 Minsk

The notes on pages 9 to 43 form an integral part of these financial statements.

“FRANSABANK” OPEN JOINT STOCK COMPANY

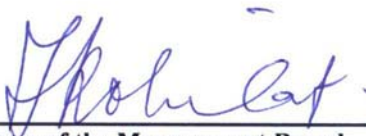
BALANCE SHEET

AS OF 31 DECEMBER 2008

(in millions of Belarusian Roubles)

	Notes	31 December 2008	31 December 2007
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	11	9,241	11,089
Due from banks and other financial institutions	12, 21	20,268	4,856
Loans to customers	13, 21	27,798	22,123
Property, equipment and intangible assets	14	1,304	1,404
Investment property	14	214	219
Other assets	15	246	241
TOTAL ASSETS		59,071	39,932
LIABILITIES AND EQUITY			
LIABILITIES:			
Customer accounts	16, 21	20,274	22,655
Debt securities issued	17	-	12
Current income tax liabilities		179	69
Deferred income tax liabilities	10	336	-
Other liabilities	18	967	382
Total liabilities		21,756	23,118
EQUITY:			
Share capital	19	45,174	29,790
Treasury shares		(206)	(206)
Accumulated deficit		(7,653)	(12,770)
Total equity		37,315	16,814
TOTAL LIABILITIES AND EQUITY		59,071	39,932

On behalf of the Management Board:



Chairman of the Management Board
 Ibrahim Koleilat
 1 June 2009
 Minsk



Chief Accountant
 Igor V. Verbenko
 1 June 2009
 Minsk

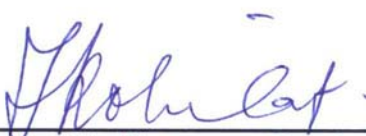
The notes on pages 9 to 43 form an integral part of these financial statements.

“FRANSABANK” OPEN JOINT STOCK COMPANY

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

	Notes	Share capital	Treasury shares	Accumulated deficit	Total equity
31 December 2006 (unaudited)		25,511	-	(10,406)	15,105
Capitalization of statutory reserves	19	4,279	-	(4,279)	-
Treasury shares		-	(206)	-	(206)
Net profit (unaudited)		-	-	1,915	1,915
31 December 2007		29,790	(206)	(12,770)	16,814
Share capital increase	19	15,384	-	-	15,384
Net profit		-	-	5,117	5,117
31 December 2008		<u>45,174</u>	<u>(206)</u>	<u>(7,653)</u>	<u>37,315</u>

On behalf of the Management Board:



Chairman of the Management Board
 Ibrahim Koleilat
 1 June 2009
 Minsk



Chief Accountant
 Igor V. Verbenko
 1 June 2009
 Minsk

The notes on pages 9 to 43 form an integral part of these financial statements.

“FRANSABANK” OPEN JOINT STOCK COMPANY

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

	Notes	Year ended 31 December 2008	Year ended 31 December 2007 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		6,474	2,811
Adjustments for:			
(Recovery of provision)/provision for impairment losses on interest bearing assets		(428)	174
Other provisions		10	33
Depreciation and amortization		306	312
Change in fair value of derivative financial instruments		-	4
Net gain on disposal of property and equipment		(18)	(3)
Translation differences, net		(1,891)	(81)
Change in interest accruals, net		183	(34)
Change in other accruals, net		266	(3)
Cash flow from operating activities before changes in operating assets and liabilities		4,902	3,213
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		113	446
Due from banks and other financial institutions		(11,854)	1,635
Loans to customers		(5,244)	(4,846)
Other assets		(93)	1,570
Increase/(decrease) in operating liabilities:			
Customer accounts		(4,238)	5,752
Other liabilities		2,342	(1,167)
Cash (outflow)/inflow from operating activities before income taxes		(14,072)	6,603
Income taxes paid		(911)	(896)
Net cash (outflow)/inflow from operating activities		(14,983)	5,707
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(291)	(114)
Proceeds on disposal of property, equipment and intangible assets		108	18
Proceeds on sale and redemption of investments available for sale		-	1,015
Net cash (outflow)/inflow from investing activities		(183)	919

“FRANSABANK” OPEN JOINT STOCK COMPANY


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

	Notes	Year ended 31 December 2008	Year ended 31 December 2007 (unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase		15,384	-
Redemption of debt securities issued, net		(12)	(552)
Repurchase of treasury shares		-	(206)
		<u>15,372</u>	<u>(758)</u>
Net cash inflow/(outflow) from financing activities			
		<u>15,372</u>	<u>(758)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		206	5,868
EFFECT OF CHANGES IN FOREIGN CURRENCIES			
EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		1,602	29
CASH AND CASH EQUIVALENTS, beginning of year	11	<u>10,897</u>	<u>5,000</u>
CASH AND CASH EQUIVALENTS, end of year	11	<u><u>12,705</u></u>	<u><u>10,897</u></u>

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.

Interest paid and received by the Bank during the year ended 31 December 2007 amounted to BYR 1,077 million and BYR 3,843 million, respectively.

On behalf of the Management Board:



Chairman of the Management Board
Ibrahim Koleilat
1 June 2009
Minsk



Chief Accountant
Igor V. Verbenko
1 June 2009
Minsk

The notes on pages 9 to 43 form an integral part of these financial statements.

“FRANSABANK” OPEN JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(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 2008 and 2007 was 234 and 241, respectively.

As of 31 December 2008 and 2007 the share capital of the Bank was owned by the following shareholders:

	31 December 2008	31 December 2007
Fransa Holding S.A.L. (Lebanon)	81.78%	-
FRANSABANK S.A.L. (Lebanon)	18.08%	-
Zeppelin Investment Ltd. (The Bahaman and British Virgin Islands)	-	27.88%
Euston Trading Ltd. (The Bahaman and British Virgin Islands)	-	25.25%
“Mir Meditsiny” LLC (The Republic of Belarus)	-	25.17%
Mortimer Traders Inc. (The Bahaman and British Virgin Islands)	-	21.44%
Other	0.14%	0.26%
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 1 June 2009.

2. BASIS OF PRESENTATION

First-time adoption of International Financial Reporting Standards

These financial statements are presented in accordance with International Financial Reporting Standards (“IFRS”) for the first time. From 1 January 2007 the Bank took IFRS as a base for its financial statements preparation. With this purpose the Bank prepared an opening balance sheet as of 1 January 2007 (“the date of transition to IFRS”) in accordance with IFRS 1 “First-time Adoption of International Financial Reporting Standards (“IFRS 1”)”. The disclosures required by IFRS 1 concerning the transition from Belarusian accounting standards to IFRS are presented in the following table.

Equity as of 31 December 2008 and 2007 and as of the date of transition to IFRS - 1 January 2007, and profit for the years ended 31 December 2008 and 2007 are reconciled between Belarusian accounting standards and IFRS as follows:

	31 December 2008	Year ended 31 December 2008	31 December 2007	Year ended 31 December 2007	1 January 2007
	Equity	Net profit	Equity	Net profit	Equity
Belarusian accounting standards (unaudited)	36,374	2,385	18,438	2,248	16,254
IAS 29 application effect, net	1,378	(71)	1,449	(63)	1,512
Elimination of revaluation of property and equipment conducted under Belarusian accounting standards	(1,771)	-	(1,604)	-	(1,462)
Allowance on interest bearing assets, net	1,284	3,430	(2,146)	(267)	(1,879)
Adjustments on accrued income and expenses, net	739	(239)	978	63	915
Write-off of assets which do not qualify for recognition under IFRS	(194)	(63)	(131)	(22)	(109)
Other provisions	(184)	9	(193)	(30)	(163)
Deferred income taxes	(336)	(336)	-	-	-
Other adjustments, net	25	2	23	(14)	37
International Financial Reporting Standards	37,315	5,117	16,814	1,915	15,105

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 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 accounting for certain non-monetary assets that occurred before 31 December 2005 and are recognized according to International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

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

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank 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, except for guarantee deposits and other restricted balances, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank is not included as a cash equivalent due to restrictions on its availability.

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 and swaps.

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

Loans to customers

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

Loans granted by the 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 income statement. Subsequently, loans are carried at amortized cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment losses.

Write-off of loans

Loans are written off against allowance for impairment losses in case of uncollectibility 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.

Allowance for impairment losses

Financial assets carried at amortized cost

The Bank accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses for financial assets which are carried at amortized cost are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

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

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

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

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 balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the 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 income statement.

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, plant 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 available for sale

Investments available for sale represent debt investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently, the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest rate method, which are recognized directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available for sale. If the market for investments is not active, the Bank establishes fair value by using a valuation technique.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.

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%

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

The recoverable amount is the higher of fair value less costs to sell and value in use. 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, plant, 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 taxes 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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted 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 each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet 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 income statement.

Customer accounts and debt securities issued

Customer accounts and debt securities issued are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized as interest expenses in the income statement over the period of the borrowings using the effective interest rate method.

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

Share capital

Contributions to share capital made before 1 January 2006 are recognized at their cost restated for inflation. Contributions to share capital 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 balance sheet date 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 State pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the Social Security Fund. The Bank does not have any pension arrangements separate from the State pension system of the Republic of Belarus and the Bank has no significant post-retirement compensated benefits requiring accrual.

Interest income and expenses

Interest income and expenses 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 income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the income statement on expiry. Loan servicing fees 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 balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

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

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

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the 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.

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 balance sheet date, and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the 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.

Derivative financial instruments

Derivative financial instruments, representing foreign currency forwards and swaps do not have an active market and are measured using interest rates parity model. Calculation is based on the assumption that LIBOR rates and the National Bank's refinance rate provide reliable basis for assessment of fair forward rate.

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

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

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

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

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

The Bank anticipates that the 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 2008	Year ended 31 December 2007
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	3,400	2,625
Interest on due from banks	763	1,229
	<hr/>	<hr/>
Total interest income on financial assets recorded at amortized cost	4,163	3,854
Interest income on financial assets recorded at fair value comprises:		
Interest on investments available for sale	-	19
	<hr/>	<hr/>
Total interest income	4,163	3,873
	<hr/>	<hr/>
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	311	916
Interest on due to banks	185	157
	<hr/>	<hr/>
Total interest expense	496	1,073
	<hr/>	<hr/>
Net interest income before provision for impairment losses on interest bearing assets	3,667	2,800
	<hr/> <hr/>	<hr/> <hr/>

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 2006	3,344
Provision	174
Write-off of assets	(185)
	<hr/>
31 December 2007	3,333
Recovery of provision	(428)
	<hr/>
31 December 2008	2,905
	<hr/> <hr/>

The movements in other provisions were as follows:

	Guarantees and other contingent liabilities
31 December 2006	-
Provision	<u>33</u>
31 December 2007	33
Provision	<u>10</u>
31 December 2008	<u><u>43</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 2008	Year ended 31 December 2007
Dealing, net	5,680	3,983
Translation differences, net	<u>1,891</u>	<u>81</u>
Total net gain on foreign exchange operations	<u><u>7,571</u></u>	<u><u>4,064</u></u>

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income:		
Settlement and cash operations with clients	3,894	3,092
Foreign exchange transactions	497	354
Plastic cards operations	51	44
Other	<u>253</u>	<u>173</u>
Total fee and commission income	<u><u>4,695</u></u>	<u><u>3,663</u></u>
Fee and commission expense:		
Correspondent bank services	166	110
Foreign exchange transactions	21	24
Other	<u>137</u>	<u>4</u>
Total fee and commission expense	<u><u>324</u></u>	<u><u>138</u></u>

8. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Staff costs	4,718	3,444
Social security contributions	1,545	1,131
Property rentals	752	560
Taxes, other than income taxes	409	385
Depreciation and amortization	306	312
Security expenses	280	277
Services of automated interbank settlement system	268	208
Termination compensation to a Supervisory Council member	211	-
Professional services	202	230
Vehicles maintenance and fuel expenses	202	172
Software use fees	171	121
Stationery	165	159
Communications	130	128
Other expenses	452	354
Total operating expenses	9,811	7,481

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Proceeds from operating leases	195	73
Net gain from sale of property, equipment and intangible assets	18	3
Other	45	38
Total other income	258	114

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 2008 and 2007, 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 2008 and 2007 the combined rate was 26.28%.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income. Major sources of non-deductible expenses include expenses over prescribed norms.

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 2008 and 2007 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2008 and 2007 comprise:

	31 December 2008	31 December 2007
Deductible temporary differences:		
Loans to customers	665	2,146
Property, equipment and intangible assets	393	297
Other liabilities	226	-
Provisions for contingencies and commitments	208	193
Other assets	194	131
Other deductible temporary differences	44	44
	<hr/>	<hr/>
Total deductible temporary differences	1,730	2,811
	<hr/>	<hr/>
Taxable temporary differences:		
Loans to banks and other financial institutions	(1,949)	-
Loans to customers	(641)	(736)
Accrued interest income	(307)	(199)
Investment property	(67)	(67)
Other taxable temporary differences	(43)	(43)
	<hr/>	<hr/>
Total taxable temporary differences	(3,007)	(1,045)
	<hr/>	<hr/>
Net (taxable)/deductible temporary differences:	(1,277)	1,766
	<hr/>	<hr/>
Deferred tax (liabilities)/assets at the combined statutory tax rate (26.28%)	(336)	464
Less valuation allowance	-	(464)
	<hr/>	<hr/>
Net deferred income tax liabilities	(336)	-
	<hr/> <hr/>	<hr/> <hr/>

Relationships between income taxes expense and accounting profit for the years ended 31 December 2008 and 2007 are explained as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income taxes	6,474	2,811
	<hr/>	<hr/>
Combined statutory tax rate	26.28%	26.28%
Tax at statutory tax rate	1,701	739
Tax effect of permanent differences	120	(5)
Change in valuation allowance	(464)	162
	<hr/>	<hr/>
Income taxes expense	1,357	896
	<hr/>	<hr/>
Current income tax expense	1,021	896
Deferred income tax expense	336	-
	<hr/>	<hr/>
Income taxes expense	1,357	896
	<hr/> <hr/>	<hr/> <hr/>

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

Cash and balances with the National Bank comprise:

	31 December 2008	31 December 2007
Cash	6,428	7,809
Correspondent account with the National Bank	1,987	2,341
Balance on reserve deposit account with the National Bank	<u>826</u>	<u>939</u>
Total cash and balances with the National Bank	<u>9,241</u>	<u>11,089</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 2008	31 December 2007
Cash and balances with the National Bank	9,241	11,089
Due from banks and other financial institutions in OECD countries with the original maturity within 90 days	<u>4,290</u>	<u>747</u>
	13,531	11,836
Less minimum reserve deposit with the National Bank	<u>(826)</u>	<u>(939)</u>
Total cash and cash equivalents	<u>12,705</u>	<u>10,897</u>

12. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	31 December 2008	31 December 2007
Time deposits	11,541	3,301
Correspondent accounts	7,691	1,303
Cash deposited with Belarusian Currency and Stock Exchange for purchase of foreign currency	<u>1,036</u>	<u>252</u>
Total due from banks and other financial institutions	<u>20,268</u>	<u>4,856</u>

As of 31 December 2008 and 2007 the Bank had exposures to two and one banks, totalling BYR 10,000 million and BYR 2,000 million, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2008 and 2007 included in balances due from banks were fixed amounts of BYR 55 million and BYR 43 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 2008	31 December 2007
Loans to customers	28,917	24,395
Net investment in finance lease	1,786	1,061
	<u>30,703</u>	<u>25,456</u>
Less allowance for impairment losses	<u>(2,905)</u>	<u>(3,333)</u>
Total loans to customers	<u><u>27,798</u></u>	<u><u>22,123</u></u>

Movements in the allowance for impairment losses on loans to customers for the years ended 31 December 2008 and 2007 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 2008	31 December 2007
Loans collateralized by real estate	10,402	7,902
Loans collateralized by inventory	8,845	4,906
Loans collateralized by equipment	4,846	4,903
Loans collateralized by liens over receivables	2,876	3,661
Loans collateralized by vehicles	1,626	1,523
Loans collateralized by corporate and individuals guarantees	1,606	2,376
Other collateral	288	117
Unsecured loans	214	68
	<u>30,703</u>	<u>25,456</u>
Less allowance for impairment losses	<u>(2,905)</u>	<u>(3,333)</u>
Total loans to customers	<u><u>27,798</u></u>	<u><u>22,123</u></u>

Analysis by sector:

	31 December 2008	31 December 2007
Wholesale trade	13,476	6,324
Manufacturing	6,522	6,019
Real estate operations	6,127	6,106
Retail trade	2,057	3,320
Individuals	1,306	1,333
Transport	451	695
Other	764	1,659
	<u>30,703</u>	<u>25,456</u>
Less allowance for impairment losses	<u>(2,905)</u>	<u>(3,333)</u>
Total loans to customers	<u><u>27,798</u></u>	<u><u>22,123</u></u>

Loans to individuals comprise the following products:

	31 December 2008	31 December 2007
Consumer loans	911	696
Car loans	357	583
Housing loans	38	54
	<u>1,306</u>	<u>1,333</u>
Less allowance for impairment losses	<u>(56)</u>	<u>(71)</u>
Total loans to individuals	<u><u>1,250</u></u>	<u><u>1,262</u></u>

As of 31 December 2007 the Bank had exposures to one borrower totalling BYR 3,646 million, which individually exceeded 10% of the Bank's equity.

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

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

	31 December 2008	31 December 2007
Not later than one year	1,282	762
From one year to five years	974	567
	<u>2,256</u>	<u>1,329</u>
Minimum lease payments	2,256	1,329
Less: unearned finance income	<u>(470)</u>	<u>(268)</u>
Net investment in finance lease	<u><u>1,786</u></u>	<u><u>1,061</u></u>
Current portion	975	588
Long-term portion	811	473
	<u>1,786</u>	<u>1,061</u>
Net investment in finance lease	<u><u>1,786</u></u>	<u><u>1,061</u></u>

14. 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 2006	304	974	567	1,545	-	365	243	3,998
Additions	7	22	-	68	7	10	-	114
Disposals	(9)	(50)	(20)	(21)	-	(22)	-	(122)
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
Accumulated depreciation								
31 December 2006	101	512	435	893	-	202	19	2,162
Charge for the year	29	87	33	105	-	53	5	312
Eliminated on disposal	(4)	(46)	(20)	(15)	-	(22)	-	(107)
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
Net book value								
31 December 2007	176	393	99	609	7	120	219	1,623
31 December 2008	132	419	90	542	1	120	214	1,518

15. OTHER ASSETS

Other assets comprise:

	31 December 2008	31 December 2007
Other financial assets:		
Settlements on plastic cards and cheques	32	84
Accrued income	22	19
	<u>54</u>	<u>103</u>
Other non-financial assets:		
Inventory	79	84
Prepaid expenses	54	44
Taxes recoverable and prepaid, other than income taxes	39	1
Other advances and prepayments	20	9
	<u>246</u>	<u>241</u>

16. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2008	31 December 2007
Current accounts and deposits repayable on demand	19,024	19,877
Time deposits	1,250	2,778
	<u>20,274</u>	<u>22,655</u>

Analysis by sector:

	31 December 2008	31 December 2007
Wholesale trade	8,414	7,841
Retail trade	4,186	6,356
Construction	3,204	2,187
Manufacturing	970	386
Education	922	3,322
Real estate	820	228
Advertising	426	290
Transport	180	57
Individuals	56	9
Other	1,096	1,979
	<u>20,274</u>	<u>22,655</u>

As of 31 December 2007 customer accounts amounting to BYR 2,515 million were due to one customer, which individually exceeded 10% of the Bank's equity.

As of 31 December 2008 customer accounts amounting to BYR 140 million were held as security against a letter of credit issued by Bank.

17. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Interest rate, %	31 December 2007
Certificates of deposit	0%	<u>12</u>
Total debt securities issued		<u><u>12</u></u>

18. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008	31 December 2007
Other financial liabilities:		
Payables to employees	426	160
Transit and settlement accounts	286	10
Other payables	<u>24</u>	<u>80</u>
	736	250
Other non-financial liabilities:		
Prepayments received	109	43
Taxes payable, other than income taxes	78	54
Provision for guarantees and other contingent liabilities	43	33
Other	<u>1</u>	<u>2</u>
Total other liabilities	<u><u>967</u></u>	<u><u>382</u></u>

Movements in provision for guarantees and other contingent liabilities for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

19. SHARE CAPITAL

As of 31 December 2008 and 2007 the authorized, issued and fully paid share capital comprised 12,441,918 and 6,346,747 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 and 2007.

During the year ended 31 December 2008 the Bank issued 6,095,171 ordinary shares.

During the year ended 31 December 2007 the Bank increased the par value of shares by capitalizing its profits and reserves, reported in the financial statements prepared in accordance with the legislation of the Republic of Belarus. This is presented in the statement of changes in equity as capitalization of statutory reserves in the amount of BYR 4,279 million.

During the years ended 31 December 2008 and 2007 the Bank did not declare and pay dividends.

20. 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 balance sheet.

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 2008 and 2007 the nominal or contract amounts were:

	31 December 2008	31 December 2007
Contingent liabilities and credit commitments:		
Commitments on loans and unused credit lines	4,730	2,715
Guarantees issued	752	1,076
Cash-covered letter of credit	140	-
	<hr/>	<hr/>
Total contingent liabilities and credit commitments	5,622	3,791

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 2008 and 2007 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 2008 and 2007 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.

21. 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 2008 and 2007 with related parties:

	31 December 2008		31 December 2007	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Due from banks and other financial institutions	1,891	20,268	-	4,856
- <i>shareholders</i>	1,891		-	
Loans to customers, gross	49	30,703	3,734	25,456
- <i>shareholders</i>	-		64	
- <i>entities under common control with the Bank</i>	-		3,646	
- <i>key management personnel of the Bank</i>	49		24	
Allowance for impairment losses on loans to customers	(2)	(2,905)	(1,664)	(3,333)
- <i>shareholders</i>	-		-	
- <i>entities under common control with the Bank</i>	-		(1,663)	
- <i>key management personnel of the Bank</i>	(2)		(1)	
Customer accounts	(597)	(20,274)	(241)	(22,655)
- <i>shareholders</i>	-		(155)	
- <i>entities under common control with the Bank</i>	(597)		(86)	
Contingent liabilities and credit commitments	15	5,622	26	3,791
- <i>key management personnel of the Bank</i>	15		26	

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

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	435	4,163	390	3,873
- <i>shareholders</i>	4		15	
- <i>entities under common control with the Bank</i>	427		373	
- <i>key management personnel of the Bank</i>	4		2	
Fee and commission income	25	4,695	29	3,663
- <i>shareholders</i>	10		15	
- <i>entities under common control with the Bank</i>	15		14	
Fee and commission expense	150	324	-	138
- <i>shareholders</i>	150		-	
Staff costs	949	4,718	556	3,444
- <i>key management personnel of the Bank – short-term benefits</i>	909		556	
- <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		-	
Other operating expense	-	452	3	354
- <i>shareholders</i>	-		3	

22. 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 balance sheet of the Bank is presented below:

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Balances with the National Bank of the Republic of Belarus	1,987	1,987	2,341	2,341
Due from banks and other financial institutions	20,268	20,268	4,856	4,856
Other financial assets	54	54	103	103
Debt securities issued	-	-	12	12
Other financial liabilities	736	736	250	250

The fair value of loans to customers and customer deposits with fixed interest rates can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

23. 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 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%.

As of 31 December 2007 the Bank's total capital amount for capital adequacy purposes and tier 1 capital amount was BYR 16,814 million with ratios of 41.5%.

24. 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.

25. 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.

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

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 2008	31 December 2007
	Maximum exposure	Maximum exposure
Balances with the National Bank	1,987	2,341
Due from banks and other financial institutions	20,268	4,856
Loans to customers	27,798	22,123
Other financial assets	54	103
Commitments on loans and unused credit lines	4,730	2,715
Guarantees issued	752	1,076

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:

						31 December 2008
	A	BBB	B	C	Not rated	Total
Balances with the National Bank Due from banks and other financial institutions	-	-	1,987	-	-	1,987
Loans to customers	4,286	1,013	6,883	1,895	6,191	20,268
Other financial assets	-	-	-	-	27,798	27,798
	-	-	-	-	54	54

						31 December 2007
	A	BBB	B	C	Not rated	Total
Balances with the National Bank Due from banks and other financial institutions	-	-	2,341	-	-	2,341
Loans to customers	744	159	195	3	3,755	4,856
Other financial assets	-	-	-	-	22,123	22,123
	-	-	-	-	103	103

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 following table details the carrying value of overdue financial assets and the assets that are individually impaired:

	Financial assets assessed individually		Financial assets assessed for impairment on portfolio basis		31 December 2008 Total
	Neither past due nor impaired	Financial assets that have been impaired	Not past due	Past due	
	Balances with the National Bank Due from banks and other financial institutions	1,987	-	-	
Loans to customers	20,268	-	-	-	20,268
Other financial assets	-	16,173	10,956	669	27,798
	54	-	-	-	54

	Financial assets assessed individually		Financial assets assessed for impairment on portfolio basis		31 December 2007 Total
	Neither past due nor impaired	Financial assets that have been impaired	Not past due	Past due	
	Balances with the National Bank Due from banks and other financial institutions	2,341	-	-	
Loans to customers	4,856	-	-	-	4,856
Other financial assets	415	11,633	9,215	860	22,123
	103	-	-	-	103

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 2008 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	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	
	Belarus	CIS countries	OECD countries	Other countries	31 December 2007 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	10,150	-	-	-	10,150
Due from banks and other financial institutions	3,833	185	747	91	4,856
Loans to customers	22,123	-	-	-	22,123
Other financial assets	103	-	-	-	103
TOTAL FINANCIAL ASSETS	36,209	185	747	91	37,232
FINANCIAL LIABILITIES:					
Customer accounts	22,644	6	5	-	22,655
Debt securities issued	12	-	-	-	12
Other financial liabilities	250	-	-	-	250
TOTAL FINANCIAL LIABILITIES	22,906	6	5	-	22,917
NET POSITION	13,303	179	742	91	

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) based on the earliest date on which the Bank can be required to pay.

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 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

	Weighted average effective interest rate, %	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	31 December 2007 Total
FINANCIAL LIABILITIES						
Customer accounts	14.06%	202	653	245	2,018	3,118
Total interest bearing financial liabilities		202	653	245	2,018	3,118
Customer accounts		19,877	-	-	-	19,877
Debt securities issued		12	-	-	-	12
Other financial liabilities		250	-	-	-	250
Commitments on loans and unused credit lines		2,715	-	-	-	2,715
Guarantees issued		1,076	-	-	-	1,076
TOTAL FINANCIAL LIABILITIES		24,132	653	245	2,018	27,048

The following tables present an analysis of liquidity risk based on carrying values of financial assets and liabilities on the balance sheet.

	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 of the Republic of Belarus	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 assets	27%	55%	57%	66%			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Overdue	Maturity undefined	31 December 2007 Total
FINANCIAL ASSETS:							
Due from banks and other financial institutions	1,300	-	2,000	-	-	-	3,300
Loans to customers	3,280	6,493	6,148	5,293	909	-	22,123
Total interest bearing financial assets	4,580	6,493	8,148	5,293	909	-	25,423
Cash and balances with the National Bank of the Republic of Belarus	10,150	-	-	-	-	-	10,150
Due from banks and other financial institutions	1,556	-	-	-	-	-	1,556
Other financial assets	100	-	-	-	-	3	103
TOTAL FINANCIAL ASSETS	16,386	6,493	8,148	5,293	909	3	37,232
FINANCIAL LIABILITIES:							
Customer accounts	170	595	-	2,013	-	-	2,778
Total interest bearing financial liabilities	170	595	-	2,013	-	-	2,778
Customer accounts	19,877	-	-	-	-	-	19,877
Debt securities issued	12	-	-	-	-	-	12
Other financial liabilities	250	-	-	-	-	-	250
TOTAL FINANCIAL LIABILITIES	20,309	595	-	2,013	-	-	22,917
Liquidity gap	(3,923)	5,898	8,148	3,280			
Interest sensitivity gap	4,410	5,898	8,148	3,280			
Cumulative interest sensitivity gap	4,410	10,308	18,456	21,736			
Cumulative interest sensitivity gap as a percentage of total assets	12%	28%	50%	58%			

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its products 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 Financial Committee and the Credit Committee and approved by the Management Board.

During the years ended 31 December 2008 and 2007 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 through profit and loss and possible changes in market interest rates would not affect the net profit for the years ended 31 December 2008 and 2007 and the Bank's equity as of 31 December 2008 and 2007.

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 = BYR 2,200	EUR 1 EUR = BYR 3,077.14	RUB 1 RUB = BYR 76.89	Other currencies	31 December 2008 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	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
NET BALANCE SHEET POSITION	15,736	14,768	4,757	193	71	

	BYR	USD 1 USD = BYR 2,150	EUR 1 EUR = BYR 3,166.73	RUB 1 RUB = BYR 87.61	Other currencies	31 December 2007 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	6,909	1,986	232	955	68	10,150
Due from banks and other financial institutions	3,461	822	52	517	4	4,856
Loans to customers	11,130	10,993	-	-	-	22,123
Other financial assets	102	1	-	-	-	103
TOTAL FINANCIAL ASSETS	21,602	13,802	284	1,472	72	37,232
FINANCIAL LIABILITIES:						
Customer accounts	21,563	653	124	315	-	22,655
Debt securities issued	12	-	-	-	-	12
Other financial liabilities	224	26	-	-	-	250
TOTAL FINANCIAL LIABILITIES	21,799	679	124	315	-	22,917
NET BALANCE SHEET POSITION	(197)	13,123	160	1,157	72	

Derivative financial instruments and spot contracts

Fair value of the derivatives and spot 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 2007:

	BYR	USD 1 USD = BYR 2,150	EUR 1 EUR = BYR 3,166.73	RUB 1 RUB = BYR 87.61	Other currencies	31 December 2007 Total
Obligations on spot and derivative contracts	-	(430)	-	-	-	(430)
Claims on spot and derivative contracts	431	-	-	-	-	431
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	431	(430)	-	-	-	
TOTAL CURRENCY POSITION	234	12,693	160	1,157	72	

Currency risk sensitivity

The following tables detail the Bank's sensitivity to an increase and decrease in the USD, EUR and RUB against the BYR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. As of 31 December 2008 in connection with volatility in financial markets, as it is disclosed in Note 26, the management of the Bank analyzed sensitivity to 30% increase in foreign currencies' rates against BYR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for an anticipated value change in foreign currency rates.

	31 December 2008		31 December 2007	
	BYR/USD	BYR/USD	BYR/USD	BYR/USD
	+30%	-10%	+10%	-10%
Impact on profit or loss before taxation	4,430	(1,477)	1,269	(1,269)
Impact on equity	4,430	(1,477)	1,269	(1,269)

	31 December 2008		31 December 2007	
	BYR/EUR	BYR/EUR	BYR/EUR	BYR/EUR
	+30%	-10%	+10%	-10%
Impact on profit or loss before taxation	1,427	(476)	16	(16)
Impact on equity	1,427	(476)	16	(16)

	31 December 2008		31 December 2007	
	BYR/RUB	BYR/RUB	BYR/RUB	BYR/RUB
	+30%	-10%	+10%	-10%
Impact on profit or loss before taxation	58	(19)	116	(116)
Impact on equity	58	(19)	116	(116)

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 balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholders' equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the 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.

26. VOLATILITY IN GLOBAL FINANCIAL MARKETS AND FINANCIAL MARKET OF THE REPUBLIC OF BELARUS

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

Volatility in global financial markets and financial market of the Republic of Belarus – In the second part of the year 2008 a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets as well as of its impact on corporate sector of the economy both globally and in Belarus, notwithstanding any potential economic stabilization measures that may be put into place by the Government of the Republic of Belarus and the National Bank, there are, as at the date these financial statements are authorized for issue, uncertainties surrounding the continual availability and cost of credit both for the Bank and its counterparties. The economic uncertainties may continue in the foreseeable future and, as a consequence, there is a probability that assets of the Bank may be not recovered at their carrying amounts in the ordinary course of business, and profitability of the Bank negatively affected.

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

The devaluation of the Belarusian rouble resulted in net translation gain of BYR 4,022 million in respect of the open balance sheet currency position of the Bank existing as of 31 December 2008.

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

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

The management of the Bank made its best estimate on the recoverability and classification of recorded assets and completeness of recorded liabilities. However, the uncertainties described above still exist and the Bank may continue to be affected by them.