CLOSED JOINT-STOCK COMPANY “ALFA-BANK”

Financial Statements
For the Year Ended 31 December 2009

CLOSED JOINT-STOCK COMPANY “ALFA-BANK”

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CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

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

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on 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 Closed Joint-Stock Company "Alfa-Bank" (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the 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;
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended 31 December 2009 were authorized for issue on 22 February 2010.

On behalf of the Management Board:

Chairman of the Management Board	Chief Financial Officer
D.A. Kalimov	A.V. Franev
22 February 2010	22 February 2010
Minsk	Minsk

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

Tel: +375 (0)17 200 0353
Fax: +375 (0)17 200 0414
www.deloitte.by

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Management Board of Closed Joint-Stock Company "Alfa-Bank":

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

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Closed Joint-Stock Company “Alfa-Bank” at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

22 February 2010

Minsk

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	4, 25	37,787	28,351
Interest expense	4, 25	(18,399)	(10,803)
Loss on initial recognition of loans issued on non-market terms	4	-	(23)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		19,388	17,525
Provision for impairment losses on loans to customers	5, 25	(12,222)	(5,562)
NET INTEREST INCOME		7,166	11,963
Net gain on foreign exchange operations	6	27,061	10,845
Fee and commission income	7, 25	14,089	14,090
Fee and commission expense	7, 25	(1,848)	(1,319)
Recovery of other provisions/(other provisions)	5	1,160	(17)
Other income	8	2,723	1,423
NET NON-INTEREST INCOME		43,185	25,022
OPERATING INCOME		50,351	36,985
OPERATING EXPENSES	9, 25	(43,008)	(32,261)
PROFIT BEFORE INCOME TAXES		7,343	4,724
Income tax expense	10	(1,318)	(2,905)
NET PROFIT		6,025	1,819
OTHER COMPREHENSIVE INCOME			
Net change in fair value of investments available for sale		(7)	-
TOTAL COMPREHENSIVE INCOME		6,018	1,819

On behalf of the Management Board:

Chairman of the Management Board
D.A. Kalimov
22 February 2010
Minsk

Chief Financial Officer
A.V. Franev
22 February 2010
Minsk

The notes on pages 9-51 form an integral part of these financial statements.

CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

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

	Notes	31 December 2009	31 December 2008
ASSETS:			
Cash	11	29,165	18,979
Balances with the National Bank of the Republic of Belarus	11	65,056	9,889
Due from banks	12, 25	93,675	89,124
Loans to customers	13, 25	238,473	155,735
Investments available for sale	14	56,583	11,633
Property, equipment and intangible assets	15	26,138	22,548
Deferred income tax assets	10	1,016	851
Other assets	17	3,817	3,960
TOTAL ASSETS		513,923	312,719
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	18, 25	9,168	13,652
Customer accounts	19, 25	386,093	255,776
Debt securities issued	20	29,267	677
Current income tax liabilities		286	213
Other liabilities	21	2,823	4,693
Subordinated debt	22, 25	27,959	968
Total liabilities		455,596	275,979
EQUITY:			
Share capital	23	76,205	52,765
Investments available for sale fair value reserve		(7)	-
Accumulated deficit		(17,871)	(16,025)
Total equity		58,327	36,740
TOTAL LIABILITIES AND EQUITY		513,923	312,719

On behalf of the Management Board:

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D.A. Kalimov
22 February 2010
Minsk

Chief Financial Officer
A.V. Franev
22 February 2010
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(in millions of Belarusian Roubles)

	Notes	Share capital	Investments available for sale fair value reserve	Accumulated deficit	Total equity
31 December 2007		52,765	-	(15,767)	36,998
Dividends declared	23	-	-	(2,077)	(2,077)
Total comprehensive income		-	-	1,819	1,819
31 December 2008		52,765	-	(16,025)	36,740
Capitalization of statutory reserves	23	7,871	-	(7,871)	-
New share issue	23	15,569	-	-	15,569
Total comprehensive income		-	(7)	6,025	6,018
31 December 2009		76,205	(7)	(17,871)	58,327

On behalf of the Management Board:

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22 February 2010
Minsk

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A.V. Franev
22 February 2010
Minsk

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CLOSED JOINT-STOCK COMPANY "ALFA-BANK"

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

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		7,343	4,724
Adjustments for:			
Provision for impairment losses on loans to customers		12,222	5,562
(Recovery of other provisions)/other provisions		(1,160)	17
Loss on impairment of non-current assets held for sale		-	1,950
Translation differences, net		(2,642)	407
Depreciation and amortization		2,300	2,367
Net gain on disposal of property, equipment, intangible and other non-financial assets		(63)	(194)
Net change in fair value of derivative financial instruments		35	434
Loss on initial recognition of loans, issued on non-market terms		-	23
Change in interest accruals, net		(2,405)	(666)
Cash flows from operating activities before changes in operating assets and liabilities		15,630	14,624
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		(2,375)	3,514
Due from banks		74,698	65,480
Loans to customers		(44,020)	(45,569)
Non-current assets held for sale		-	1,209
Other assets		1,733	241
Increase/(decrease) in operating liabilities:			
Due to banks		(19,571)	(21,755)
Customer accounts		63,576	(542)
Other liabilities		(4,260)	(357)
Cash inflow from operating activities before taxation		85,411	16,845
Income taxes paid		(1,410)	(3,931)
Net cash inflow from operating activities		84,001	12,914
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(6,015)	(1,562)
Finance lease repayment		(186)	(278)
Proceeds on sale of property, equipment and intangible assets		381	253
Purchase of investments available for sale		(98,455)	(253,064)
Sale of investments available for sale		55,724	246,465
Net cash outflow from investing activities		(48,551)	(8,186)

The notes on pages 9-51 form an integral part of these financial statements.

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

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds on issue of debt securities		29,047	-
Redemption of debt securities		(849)	(273)
Subordinated debt received		24,101	-
Proceeds on issue of shares		15,569	-
Dividends paid		-	(2,077)
Net cash inflow/(outflow) from financing activities		67,868	(2,350)
NET INCREASE IN CASH AND CASH EQUIVALENTS		103,318	2,378
Effect of changes in foreign exchange rates on cash and cash equivalents		18,027	(369)
CASH AND CASH EQUIVALENTS, beginning of year	11	48,459	46,450
CASH AND CASH EQUIVALENTS, end of year	11	169,804	48,459

Interest paid and received by the Bank during the year ended 31 December 2009 amounted to BYR 18,212 million and BYR 35,195 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2008 amounted to BYR 10,674 million and BYR 27,556 million, respectively.

On behalf of the Management Board:

Chairman of the Management Board
D.A. Kalimov
22 February 2010
Minsk

Chief Financial Officer
A.V. Franev
22 February 2010
Minsk

The notes on pages 9-51 form an integral part of these financial statements.

1. ORGANIZATION

Closed Joint Stock-Company “Alfa-Bank” (former title “International Trade and Investment Bank”) (the “Bank”) was registered by the National Bank of the Republic of Belarus (the “National Bank”) on 28 January 1999 as a closed joint-stock company with foreign capital participation. In July 2008 the Bank was acquired by the consortium Alfa-Group as a result of which the Bank registered a new name – Closed Joint Stock-Company “Alfa-Bank”.

The Bank’s registered office is located at 12 Sovetskaya Str., Minsk, Republic of Belarus.

The Bank conducts its business under the General License for performing banking operations # 22 issued on 13 November 2008, which superseded the License # 58 for performing banking operations, the License # 58 for attraction of funds from individuals, the General License # 58 for foreign currency operations. The Bank also has the License of the State Committee on Securities of the Republic of Belarus for intermediary, commercial and consulting activities on securities market of the Republic of Belarus.

The Bank’s primary areas of operations include transferring payments, lending, foreign currency operations upon demand of its customers and on interbank market. The license allows the Bank to maintain accounts and attract term deposits from individuals and corporate customers. As at 31 December 2009 the Bank had 14 banking service offices in the Republic of Belarus (2008:19).

The average number of employees of the Bank during 2009 and 2008 was 548 and 506, respectively.

As at 31 December 2009 and 2008 the following shareholders owned the issued shares of the Bank:

	31 December 2009, %	**31 December 2008, %**
ABH Belarus Limited, Cyprus	93.8	88.0
Vikash Investments Limited, Great Britain	4.9	9.3
Republican Unitary Enterprise “Byelorussian Steel works”, Belarus	1.0	2.0
Individuals	0.3	0.7
Total	100.0	100.0

The ultimate controlling parties of the Bank as at 31 December 2009 and 2008 were the owners of the consortium Alfa-Group Michail Maratovich Fridman, German Borisovich Khan and Aleksei Viktorovich Kuzmichev (citizens of the Russian Federation).

These financial statements were authorized for issue by the Management of the Bank on 22 February 2010.

2. BASIS OF PRESENTATION

Accounting basis

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

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The Management and shareholders have the intention to further develop the business of the Bank in the Republic of Belarus.

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

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

Key assumptions

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. Estimates and assumptions are based on the information prepared for the management of the Bank as of the date of financial statements issue. For this reason actual results may differ from these estimates and assumptions. Estimates that are most likely to differ from actual results relate to the provisions for losses and impairment of guarantees and other liabilities and the fair value of financial instruments.

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

	31 December 2009	**31 December 2008**
Allowance for impairment losses on loans to customers	19,453	12,711
Deferred income tax assets	1,016	851
Deferred income tax assets not recognized	5,645	5,913
Allowance for losses on other assets	213	191
Allowance for losses on guarantees and other commitments	315	1,497
Derivative financial instruments (assets)	229	15
Derivative financial instruments (liabilities)	264	449

Allowance for impairment losses on loans to customers
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 group, and national or local economic conditions that correlate with defaults on assets in the Bank.

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

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

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

Derivative financial instruments
Derivative financial instruments, representing foreign currency swaps do not have an active market and are measured using interest rates parity model. Fair values are determined using the risk-free interest rates in the Republic of Belarus and exchange rates fixed by the National Bank. Calculation is based on the assumption that these factors provide reliable basis for assessment of fair forward rate.

Provisions on guarantees and other commitments
Provisions for financial guarantees and letters of credit are measured in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", that requires application of management estimation and judgment.

Functional currency

The functional currency of these financial statements is Belarusian Rouble.

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

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

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

Derecognition of financial assets and liabilities

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

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

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 in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Belarus with original maturity within 90 days, loans and advances to banks 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 of the Republic of Belarus is not included as a cash equivalent due to restrictions on its availability.

Due from banks

In the normal course of business the Bank maintains advances or deposits for various periods of time with other banks. Balances due from banks are subsequently measured at amortized cost using the effective interest rate method. Amounts due from banks 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 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 estimated risk-free rates in the Republic of Belarus as inputs. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the statement of comprehensive income for the period in which they arise in net gain/ (loss) on foreign exchange operations.

Securities repurchase and reverse repurchase agreements

In the normal course of business the Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements of financial assets (“reverse repos”). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

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

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified within balances due from banks.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/ (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the statement of comprehensive income.

Loans to customers

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

Write off of loans

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

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

Allowances for impairment losses

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 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, for financial assets which are carried at amortized cost. 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 determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, by the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in impairment losses is charged to profit, and the total of impairment losses is deducted in arriving at assets as shown in the statement of financial position. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

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

It should be understood that estimates of losses involve an exercise of judgment. The management of the Bank believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is probable that in certain periods the Bank can incur losses greater than recorded impairment.

Finance leases

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

At the commencement of the lease term, the Bank as a lessee recognizes finance leases as assets and liabilities in its statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the leased property is charged in accordance with depreciation policy that is applied to property owned by the Bank.

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 other comprehensive income until sold when gain/loss previously recorded in other comprehensive income recycles through profit or loss, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the profit or loss. 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 other applicable methods. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in other comprehensive income is removed from other comprehensive income and recognized in profit or loss for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in profit or loss for the period.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the statement of comprehensive income as loss from non-current assets held for sale and included in operating expenses. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

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 any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation 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	2-10%
Furniture and equipment	12.5-25%
Intangible assets	10-50%

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

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

Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property, equipment and intangible assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

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

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

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

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

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

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

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

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

Due to banks, customer accounts, debt securities issued and subordinated debt

Due to banks, customer accounts, debt securities issued and subordinated debt 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 in the statement of comprehensive income 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 guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee 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 a 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.

Share capital

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

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the end of the reporting period are treated as a subsequent event under International Accounting Standard 10 “Events after the Reporting Period” and disclosed accordingly.

Retirement and other benefit obligations

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

Recognition of income and expense

Recognition of interest income and expense
Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest 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.

Recognition of fee and commission income and expense
Loan origination fees together with the related direct costs are recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the statement of comprehensive income over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the statement of comprehensive income on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the statement of comprehensive income when the syndication has been completed. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into BYR at the appropriate spot rates of exchange ruling at the end of the reporting period. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

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

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

Offset of financial assets and liabilities

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

Adoption of new standards

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

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

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

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

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

Reclassifications

Certain changes in presentation have been made to the comparative information as per financial statements for the year ended 31 December 2008 to conform to the presentation as at 31 December 2009 as current period presentation provides better view of the financial performance of the Bank:

- Commission expenses in the amount of BYR 798 million have been reclassified from fee and commission expense on foreign exchange operations to fee and commission expense on correspondent bank services.
- Presentation of the geographical regions within disclosure of geographical concentration of financial instruments was changed in order to conform to classification used by Alfa-Group.

4. NET INTEREST INCOME

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income comprises:		
Interest income on financial instruments recorded at amortized cost:		
- interest income on financial assets individually determined to be impaired	25,298	11,431
- interest income on financial assets collectively determined to be impaired	6,342	8,905
- interest income on unimpaired financial assets	3,378	5,638
Interest income on financial instruments at fair value	2,769	2,377
Total interest income	37,787	28,351
Interest income on financial instruments recorded at amortized cost comprises:		
Interest on loans to customers	32,458	20,960
Interest on due from banks	2,560	5,014
Total interest income on financial instruments recorded at amortized cost	35,018	25,974
Interest income on financial instruments at fair value comprises:		
Interest on investments available for sale	2,769	2,377
Total interest income on financial instruments at fair value	2,769	2,377
Interest expense comprises:		
Interest expense on financial instruments recorded at amortized cost	(18,399)	(10,803)
Total interest expense	(18,399)	(10,803)
Interest expense on financial instruments recorded at amortized cost comprises:		
Interest on customer accounts	(13,567)	(8,259)
Interest on due to banks	(2,276)	(2,376)
Interest on subordinated debt	(1,576)	(64)
Interest on debt securities issued	(808)	(104)
Interest on loans received from National Bank	(172)	-
Total interest expense on financial instruments recorded at amortized cost	(18,399)	(10,803)
Loss on initial recognition of loans issued on non-market terms	-	(23)
Net interest income before provision for impairment losses on interest bearing assets	19,388	17,525

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on loans to customers were as follows:

	Loans to customers
31 December 2007	12,907
Provision	5,562
Write-off of assets	(5,758)
31 December 2008	12,711
Provision	12,222
Write-off of assets	(5,480)
31 December 2009	19,453

The movements in other provisions were as follows:

	Guarantees and other commitments	Other assets	Total
31 December 2007	1,480	208	1,688
Provision	17	-	17
Write-off of assets	-	(17)	(17)
31 December 2008	1,497	191	1,688
(Recovery of provision)/provision	(1,182)	22	(1,160)
31 December 2009	315	213	528

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

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Dealing, net	24,023	12,536
Translation differences, net	2,642	(407)
Gain/(loss) on derivative financial instruments, net	396	(1,284)
Total net gain on foreign exchange operations	27,061	10,845

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Fee and commission income		
Settlements and clients service	7,025	5,442
Foreign exchange operations	6,596	8,422
Settlements with banks	27	30
Securities operations	9	43
Other	432	153
Total fee and commission income	14,089	14,090
Fee and commission expense		
Correspondent bank services	1,547	970
Foreign exchange operations	246	279
Securities operations	16	30
Other	39	40
Total fee and commission expense	1,848	1,319

8. OTHER INCOME

Other income comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
Returns on bad debts written off in previous periods	1,371	475
Net gain on operations with investments available for sale	294	24
Fines and penalties	279	125
Operating lease payments	81	144
Net gain on disposal of property, equipment, intangible and other non-financial assets	63	194
Other income	635	461
Total other income	2,723	1,423

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Staff costs	18,787	13,174
Social security contribution	4,796	4,674
Property rentals and equipment maintenance	4,094	1,801
Depreciation and amortization	2,300	2,367
Charity	2,133	55
Professional services	2,015	937
Office expenses	1,294	106
Taxes, other than income taxes	1,126	2,580
Contributions to deposits protection fund	940	332
Security expenses	697	650
Interbank settlements fees	667	397
Communications	637	447
Transport expenses	503	577
Software development and maintenance expense	463	199
Loss on impairment of non-current assets held for sale (Note 16)	-	1,950
Other expenses	2,556	2,015
Total operating expenses	43,008	32,261

10. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences at 31 December 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax effect of temporary differences as at 31 December 2009 and 2008 comprise:

	31 December 2009	31 December 2008
Deductible temporary differences:		
Loans to customers	10,398	11,122
Property and equipment	14,378	13,275
Non-current assets held for sale	1,950	1,950
Materials, low value items and prepaid expenses written off	1,507	583
Other assets	3,184	208
Accrued expenses	263	114
Provisions for losses on guarantees and other commitments	10	1,307
Other liabilities	847	434
Total deductible temporary differences	32,537	28,993
Taxable temporary differences:		
Intangible assets	37	37
Accrued interest income	7,097	2,968
Other	58	251
Total taxable temporary differences	7,192	3,256
Net deductible temporary differences	25,345	25,737
Net deferred tax asset at statutory tax rate 26.28%	6,661	6,764
Less deferred tax assets not recognized	(5,645)	(5,913)
Net deferred tax asset	1,016	851

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

	Year ended 31 December 2009	Year ended 31 December 2008
Profit before income taxes	7,343	4,724
Combined statutory tax rate	26.28%	26.28%
Tax at statutory tax rate	1,930	1,241
Tax effect of permanent differences	87	837
Effect of change in tax base of property, equipment and intangible assets due to revaluation performed under Belarusian statutory accounting rules	(431)	(1,451)
Change in deferred tax assets not recognized	(268)	2,278
Income tax expense	1,318	2,905

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax expense	1,483	3,756
Deferred income tax credit	(165)	(851)
Total income tax expense recognized in statement of comprehensive income	1,318	2,905

The movements in the amount of not recognized deferred tax assets were as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Deferred tax assets not recognized at beginning of the period	5,913	3,635
Increase in deferred tax assets not recognized	(268)	2,278
Deferred tax assets not recognized at end of the period	5,645	5,913

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

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

	31 December 2009	31 December 2008
Cash	29,165	18,979
Balances with the National Bank of the Republic of Belarus	65,056	9,889
Total cash and balances with the National Bank	94,221	28,868

The balances with the National Bank as at 31 December 2009 and 2008 include BYR 7,617 million and BYR 5,242 million, respectively, which represent the obligatory minimum reserve deposits with the National Bank. 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 the following:

	31 December 2009	31 December 2008
Cash and balances with the National Bank of the Republic of Belarus	94,221	28,868
Due from banks in OECD countries with original maturity less 90 days	83,200	24,833
	177,421	53,701
Less minimum reserve deposits with the National Bank of the Republic of Belarus	(7,617)	(5,242)
Total cash and cash equivalents	169,804	48,459

12. DUE FROM BANKS

Due from banks comprise:

	31 December 2009	31 December 2008
Correspondent accounts with banks	93,664	78,392
Loans and term deposits with banks	11	-
Loans under reverse repurchase agreements	-	10,732
Total due from banks	93,675	89,124

As at 31 December 2009 and 2008 the Bank has exposures to 3 banks in the amount of BYR 76,763 million and BYR 83,238 million, respectively, which individually exceeded 10% of the Bank's equity and represented significant concentration.

As at 31 December 2008 loans under reverse repurchase agreements were placed with Belarusian banks and secured by long-term government bonds with fair value of BYR 10,732 million.

As at 31 December 2009 and 2008 included in balances due from banks are guarantee deposits placed by the Bank for guarantees and letters of credit in the amount of BYR 6,674 million and BYR 52,420 million, respectively.

13. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2009	31 December 2008
Originated loans	257,273	167,636
Net investment in finance leases	653	810
	257,926	168,446
Less allowance for impairment losses	(19,453)	(12,711)
Total loans to customers	238,473	155,735

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

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

	31 December 2009	31 December 2008
Loans collateralized by equipment and goods in turnover	82,419	71,201
Loans collateralized by real estate	58,988	44,488
Loans collateralized by liens over assets	58,842	1,162
Loans collateralized by cars	32,454	39,634
Uncollateralized loans	6,474	360
Loans collateralized by cash	614	722
Loans collateralized by other types of collateral	18,135	10,879
	257,926	168,446
Less allowance for impairment losses	(19,453)	(12,711)
Total loans to customers	238,473	155,735

The table below provides analysis of loans by industry:

	31 December 2009	31 December 2008
Oil refining and energy	73,889	13,515
Trade	67,513	35,890
Manufacturing	65,820	43,722
Individuals	43,059	55,476
Leasing companies	1,745	3,110
Wood processing	-	167
Other	5,900	16,566
	257,926	168,446
Less allowance for impairment losses	(19,453)	(12,711)
Total loans to customers	238,473	155,735

During the year ended 31 December 2008 the Bank received assets by taking possession of collateral it held as security. As at 31 December 2009 and 2008 assets received due to repossession of collateral in amount of BYR 231 million and BYR 286 million respectively are included in other assets (Note 17).

Loans to individuals comprise the following products:

	31 December 2009	31 December 2008
Car loans	29,945	39,634
Loans to finance real estate	6,984	6,749
Consumer loans	5,447	4,664
Overdrafts	683	4,429
	43,059	55,476
Less allowance for impairment losses	(4,186)	(2,790)
Total loans to individuals	38,873	52,686

As at 31 December 2009 and 2008 the Bank granted loans to 8 and 6 customers, totaling BYR 111,708 million and BYR 52,583 million, respectively, which individually exceeded 10% of the Bank's equity and represented significant concentration.

As at 31 December 2009 included in loans to customers are loans to OJSC "Naftan", RUE "Minskenergo" and OJSC "Beltransgaz" totaling BYR 14,599 million, BYR 24,448 million and BYR 24,336 million, respectively, which comprised 6%, 9% and 9% of the Bank's loan portfolio. As at 31 December 2008 included in loans to customers are loans to OJSC "Naftan" totaling BYR 13,515 million, which comprised 9% of the Bank's loan portfolio.

As at 31 December 2009 and 2008 the Bank granted a loan to OJSC "Naftan" totaling BYR 14,029 million and BYR 10,812 million, respectively, that was issued from funds provided by the National Bank of the Republic of Belarus. In accordance with the agreement with the National Bank of the Republic of Belarus the Bank's liabilities on the loan including interest repayment arise only after respective payments from OJSC "Naftan" are received. Accordingly, the assets and liabilities on this agreement were offset in these financial statements.

As at 31 December 2009 the Bank granted syndicated loans to three customers. The loans were issued partly from the Bank's funds and partly from the funds of counterparty banks as detailed in the table below.

Borrower	Counterparty banks	Share of funds provided by counterparty banks	Share of funds provided by the Bank	Total syndicated loan amount, BYR million
OJSC "Naftan"	OJSC "Alfa Bank (Russia)"	29/30	1/30	87,308
OJSC "Beltransgaz"	N.V. "Amsterdam Trade Bank"	19/20	1/20	28,649
LLC "Interservis"	OJSC "Paritetbank", CJSC "Absolutbank" and CJSC "RRB-Bank"	19/20	1/20	16,462

In accordance with the terms of agreements with the counterparty banks the Bank's liability to repay the funds provided by counterparty banks including interest repayment arise only after respective payments from the borrowers are received. Accordingly, the part of the syndicated loans assets to the extent of the share of funds provided by counterparty banks were offset with respective liabilities in these financial statements.

As at 31 December 2009 and 2008 all loans are granted to companies operating in the Republic of Belarus, which represents a significant geographical concentration in one region.

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

	31 December 2009			31 December 2008		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers individually determined to be impaired	200,545	(14,676)	185,869	93,675	(8,739)	84,936
Loans to customers collectively determined to be impaired	51,373	(4,777)	46,596	70,136	(3,972)	66,164
Unimpaired loans	6,008	-	6,008	4,635	-	4,635
Total	257,926	(19,453)	238,473	168,446	(12,711)	155,735

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

	31 December 2009	31 December 2008
Less than one year	653	640
From one year to five years	57	285
Minimum lease payments	710	925
Less: unearned finance income	(57)	(115)
Net investment in finance lease	653	810
Current portion	601	550
Long-term portion	52	260
Net investment in finance lease	653	810

14. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Interest to nominal	31 December 2009	Interest to nominal	31 December 2008
Bonds issued by Belarusian banks (nominated in foreign currencies)	9-11%	53,719	-	-
Bonds issued by Belarusian banks (nominated in BYR)	19.5-22%	2,845	12-13.5%	9,786
Bonds issued by a Belarusian company (nominated in BYR)	-	-	13%	1,847
Shares issued by a Russian company	-	19	-	-
Total investments available for sale		56,583		11,633

15. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings	Furniture and equipment	Construction in progress	Intangible assets	Total
Cost/cost restated for hyperinflation					
31 December 2007	18,587	12,497	274	1,733	33,091
Additions	27	840	531	211	1,609
Disposals	(82)	(86)	-	(2)	(170)
31 December 2008	18,532	13,251	805	1,942	34,530
Additions	218	4,387	83	1,520	6,208
Disposals	(423)	(1,570)	-	-	(1,993)
31 December 2009	18,327	16,068	888	3,462	38,745
Accumulated depreciation					
31 December 2007	1,752	7,253	-	721	9,726
Charge for the period	324	1,808	-	235	2,367
Disposals	(60)	(49)	-	(2)	(111)
31 December 2008	2,016	9,012	-	954	11,982
Charge for the period	362	1,670	-	268	2,300
Disposals	(254)	(1,421)	-	-	(1,675)
31 December 2009	2,124	9,261	-	1,222	12,607
Net book value					
31 December 2009	16,203	6,807	888	2,240	26,138
31 December 2008	16,516	4,239	805	988	22,548

As at 31 December 2009 and 2008 the carrying amount of property, equipment and intangible assets includes BYR 415 million and BYR 9 million, respectively, of equipment held under finance lease agreements.

16. NON-CURRENT ASSETS HELD FOR SALE

In September 2006 the Bank received a manufacturing facility with wood-processing equipment including related buildings and structures. The Bank was not able to complete the sale of the wood-processing facility in 2007 and 2008 and as at 31 December 2008 the Bank assessed the probability of sale of this property as low and recognized the impairment of the asset in full (Note 9). As at 31 December 2009 the property was still accounted for in statutory books and the Bank did not have any secure arrangement for its sale.

17. OTHER ASSETS

Other assets comprise:

	31 December 2009	31 December 2008
Other financial assets:		
Settlements on other operations	859	1,644
Derivative financial instruments	229	15
Other debtors	669	669
Total other financial assets	1,757	2,328
Other non-financial assets:		
Taxes prepaid, other than income taxes	1,192	547
Prepayments for property and equipment	429	32
Other prepayments and advances	266	914
Assets acquired through repossession of collateral (Note 13)	231	286
Prepaid expenses	155	44
Less allowance for impairment losses	(213)	(191)
Total other assets	3,817	3,960

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

As at 31 December 2009 derivative financial instruments comprise:

Foreign currency swap contracts	**Nominal amount (in units of currency to be purchased)**	**Fair Value**	
		Asset	**Liability (Note 21)**
USD/EUR	USD 14,345,000	9	-
EUR/BYR	EUR 4,500,000	220	(264)
Total derivative financial instruments		229	(264)

As at 31 December 2008 derivative financial instruments comprise:

Foreign currency swap contracts	**Nominal amount (in units of currency to be purchased)**	**Fair Value**	
		Asset	**Liability (Note 21)**
USD/EUR	USD 566,000	15	-
EUR/USD	EUR 10,200,000	-	(449)
Total derivative financial instruments		15	(449)

18. DUE TO BANKS

Due to banks comprise:

	31 December 2009	**31 December 2008**
Loans and deposits from banks	8,980	13,042
Correspondent accounts of banks	188	610
Total due to banks	9,168	13,652

As at 31 December 2009 and 2008 balances due to banks in the amounts of BYR 8,979 million (98%) and BYR 9,539 million (70%), respectively, were due to three and one bank, which represented significant concentration.

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2009	**31 December 2008**
Repayable on demand	223,096	156,387
Time deposits	162,997	99,389
Total customer accounts	386,093	255,776

As at 31 December 2009 and 2008 customer accounts amounting to BYR 38,028 million and BYR 93,489 million, respectively, were held as security against letters of credit issued by the Bank.

As at 31 December 2009 and 2008 customer accounts amounting to BYR 1,949 million and BYR 1,343 million, respectively, were held as security against guarantees issued.

As at 31 December 2009 and 2008 customer accounts amounting to BYR 78,843 million (20%) and BYR 111,281 million (44%), respectively, were due to OJSC “Naftan”, which represents significant concentration.

Analysis by sector	31 December 2009	31 December 2008
Individuals	144,873	58,323
Oil refining and energy	129,124	113,637
Transport and communications	27,816	1,210
Sporting clubs	25,042	-
Trade	22,097	14,510
Production	11,961	2,566
Construction	3,087	24,357
Leasing companies	1,116	48
Entrepreneurs	1,054	706
Insurance	116	1,553
Other	19,807	38,866
Total customer accounts	386,093	255,776

20. DEBT SECURITIES ISSUED

As at 31 December 2009 the Bank had in issue 9,961 coupon bonds with par value of USD 1,000 each. Bonds were issued with quarterly coupon rate of 9% p.a. and maturity date 16 July 2010.

As at 31 December 2008 the Bank had in issue 6,872 bonds with par value of BYR 100,000 each. Bonds were issued at a discount with effective interest rate of 12.5% p.a. and maturity date 17 February 2009.

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2009	31 December 2008
Other financial liabilities:		
Due to employees	883	-
Finance lease liability	422	18
Derivative financial instruments (Note 17)	264	449
Settlements on other operations	-	2,023
Other liabilities	559	246
Total other financial liabilities	2,128	2,736
Other non-financial liabilities:		
Taxes payable, other than income taxes	380	460
Provisions for losses on guarantees and other commitments	315	1,497
Total other liabilities	2,823	4,693

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

22. SUBORDINATED DEBT

	Currency	Maturity Date	Interest rate	31 December 2009	31 December 2008
ABH Belarus Limited	EUR	2 February 2016	8.26%	18,477	-
ABH Belarus Limited	EUR	14 September 2016	7.25%	8,212	-
JSIC “B&B Insurance Co”	USD	16 March 2011	7.00%	859	660
JSIC “B&B Insurance Co”	EUR	16 March 2011	6.00%	411	308
Total subordinated debt				27,959	968

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank’s liabilities to all other creditors.

23. SHARE CAPITAL

As at 31 December 2009 and 2008 authorized, issued and fully paid-in share capital consisted of 81,880,232 and 35,000,471 ordinary shares with a par value of BYR 500 each. All shares are ranked equally and carry one vote.

In February 2009 the Bank issued 31,138,650 ordinary shares with a par value of BYR 500 each. The issue has been purchased in full resulting in BYR 15,569 million proceeds in cash.

In March 2009 the Bank has increased the amount of its share capital by an internal transfer from other reserves which have credit balance in the statutory financial statements to the share capital. The Bank issued 15,741,111 ordinary shares with par value of BYR 500 each and distributed them among shareholders according to their ownership share. As a result, the official amount of registered share capital per the Statute of the Bank increased, and this increase was presented in these IFRS financial statements with a corresponding debit to accumulated deficit.

For the year ended 31 December 2009 the Bank didn’t declare dividends.

For the year ended 31 December 2008 the Bank declared and paid BYR 2,077 million or BYR 59.33 per share dividends on ordinary shares for the year 2007.

The Bank’s funds distributable to shareholders are limited to the amount of funds that are stated in the financial statements prepared according to the Belarusian accounting rules. Non-distributable funds comprise tangible assets revaluation fund and reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities. In accordance with the legislation the reserve fund is created for the mentioned objectives in the amount of no less than 5% of the Bank’s share capital stated in the financial statements under statutory accounting principles.

24. COMMITMENTS AND CONTINGENCIES

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

The Bank's maximum exposure to credit loss under contingent 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's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance financial instruments.

Provision for losses on contingent liabilities amounted to BYR 315 million and BYR 1,497 million as at 31 December 2009 and 2008, respectively.

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

	31 December 2009 (nominal)	31 December 2008 (nominal)
Contingent liabilities and credit commitments		
Guarantees issued	6,450	12,977
Letters of credit secured by cash	38,028	93,489
Letters of credit not secured by cash	4,924	4,368
Commitments on loans and unused credit lines	7,460	22,924
Total contingent liabilities and credit commitments	56,862	133,758

As at 31 December 2009 and 2008 commitments on loans and unused credit lines represent the Bank's commitments to extend loans within unused credit facilities that are conditioned on the following: a borrower has to apply to the Bank each time it wants to extend its borrowings within initial credit line limit; and the Bank may approve the extension of finance based on a borrower's financial performance, debt service and other credit risk characteristics.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred 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 at 31 December 2009 and 2008 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Legislation – Certain provisions of Belarusian commercial legislation and tax legislation in particular may give rise to varying interpretations and inconsistent application. In addition, as management's interpretation of legislation may differ from that of the authorities, statutory compliance may be challenged by the authorities, and as result the Bank may face additional taxes and charges and other preventive measures. 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. Past fiscal years remain open to review by the authorities.

25. TRANSACTIONS WITH RELATED PARTIES

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with the 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 also included in this disclosure transactions with minority shareholders.

The Bank had the following transactions outstanding at 31 December 2009 and 2008 with related parties:

	31 December 2009		**31 December 2008**	
	Related party balances	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Due from banks	**2,138**	**93,675**	**1,109**	**89,124**
- entities under common control	2,138		1,109	
Loans to customers	**5,475**	**257,926**	**796**	**168,446**
- minority shareholders	22		129	
- key management personnel	343		667	
- entities under common control	5,110		-	
Allowance for impairment losses for loans to customers	**409**	**19,453**	**16**	**12,711**
- minority shareholders	2		3	
- key management personnel	21		13	
- entities under common control	386		-	
Due to banks	**11**	**9,168**	**9,539**	**13,652**
- entities under common control	11		9,539	
Customer accounts	**70,453**	**386,093**	**494**	**255,776**
- minority shareholders	672		222	
- key management personnel	649		272	
- entities under common control	69,132		-	
Subordinated debt	**26,689**	**27,959**	**-**	**968**
- shareholders	26,689		-	
Letters of credit	**1,333**	**42,952**	**4**	**97,857**
- minority shareholders	1,333		4	

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

	Year ended 31 December 2009		**Year ended 31 December 2008**	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income	**79**	**37,787**	**67**	**28,351**
- minority shareholders	3		11	
- key management personnel	46		39	
- entities under common control	30		17	
Interest expense	**(2,027)**	**(18,399)**	**(803)**	**(10,803)**
- shareholders	(1,494)		(32)	
- minority shareholders	(13)		(4)	
- key management personnel	(15)		(17)	
- entities under common control	(505)		(750)	
(Provision)/recovery of provision for impairment losses for loans to customers	**(393)**	**(12,222)**	**(16)**	**(5,562)**
- minority shareholders	1		(3)	
- key management personnel	(8)		(13)	
- entities under common control	(386)		-	
Fee and commission income	**56**	**14,089**	**9**	**14,090**
- minority shareholders	11		9	
- entities under common control	45		-	
Fee and commission expense	**(229)**	**(1,848)**	**(5)**	**(1,319)**
- shareholders	-		(5)	
- entities under common control	(229)		-	
Operating expenses	**(2,518)**	**(43,008)**	**(1,517)**	**(32,261)**
- minority shareholders	(224)		(424)	
- key management personnel (remuneration)	(2,294)		(1,093)	

During the years ended 31 December 2009 and 2008 remuneration of key management personnel consisted of short-term employee benefits.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	31 December 2009		31 December 2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Balances with the National Bank	57,439	57,439	4,647	4,647
Due from banks	93,675	93,675	89,124	89,124
Investments available for sale	56,583	56,583	11,633	11,633
Other financial assets	1,757	1,757	2,328	2,328
Due to banks	9,168	9,168	13,652	13,652
Debt securities issued	29,267	29,267	677	677
Other financial liabilities	2,128	2,128	2,736	2,736

The fair value of loans to customers, customer account and subordinated debt can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

Financial instruments recognized at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

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

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

	31 December 2009		
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**
Derivative financial instruments (assets)	-	229	-
Investments available for sale	-	56,583	-
			-
Derivative financial instruments (liabilities)	-	(264)	-

27. CAPITAL RISK MANAGEMENT

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 ratio was calculated according to the principles employed by the Basle Committee.

As at 31 December 2009 the Bank's total capital amount for Capital Adequacy purposes was BYR 85,332 million and tier 1 capital amount was BYR 58,327 million with ratios of 21.36% and 14.60%, respectively.

As at 31 December 2008 the Bank's total capital amount for Capital Adequacy purposes was BYR 37,166 million and tier 1 capital amount was BYR 36,740 million with ratios of 14.29% and 14.12%, respectively.

As at 31 December 2009 and 2008 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

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

The capital structure of the Bank consists of debt, which includes subordinated debt disclosed in Note 22, and issued capital as disclosed in statement of changes in equity.

The Management Board reviews the capital structure, cost of capital and the risks associated with each class of capital. Based on recommendations of the Management Board, the Bank balances its overall capital structure through the payment of dividends, obtaining or redemption of subordinated debt.

28. RISK MANAGEMENT POLICIES

Risk management is fundamental to the Bank's banking business. The main risks inherent to the Bank's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the risks the following risks:

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.

Risk management and monitoring is performed within set limits of authority, by the Credit Committee and the Bank's Management Board. Before any application is made to the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the risk-manager of the Risk Management Department. Daily risk management is performed by the Head of Risk Management Department.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees. Credit risks are monitored on a continuous basis and subject to regular reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial assets, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum Exposure

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

	31 December 2009	**31 December 2008**
Balances with the National Bank	57,439	4,647
Due from banks	93,675	89,124
Loans to customers	238,473	155,735
Investments available for sale	56,583	11,633
Other financial assets	1,757	2,328
Guarantees issued	6,450	12,977
Letters of credit not secured by cash	4,924	4,368
Commitments on loans and unused credit lines	7,460	22,924

Financial assets are classified according to the current credit rating they have been issued by an international credit rating agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. The following table details the credit ratings of financial assets held by the Bank per Fitch Ratings scale. The government debt securities, as well as current account in the National Bank are presented in accordance with Standard & Poor's scale:

	AA	**A**	**<BBB**	**Not rated**	**31 December 2009 Total**
Balances with the National Bank	-	-	57,439	-	57,439
Due from banks	2,647	60,991	28,789	1,248	93,675
Loans to customers	-	-	-	238,473	238,473
Investments available for sale	-	-	56,564	19	56,583
Other financial assets	-	-	229	1,528	1,757

	AA	**A**	**<BBB**	**Not rated**	**31 December 2008 Total**
Balances with the National Bank	-	-	4,647	-	4,647
Due from banks	59,999	484	11,164	17,477	89,124
Loans to customers	-	-	-	155,735	155,735
Investments available for sale	-	-	9,786	1,847	11,633
Other financial assets	-	-	-	2,328	2,328

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.

Geographical concentration

The Bank assesses influence of geographical risk on its activity. The geographical concentration of assets and liabilities is set out below:

	Belarus	Russia	Other CIS	Europe	USA	Other	31 December 2009 Total
FINANCIAL ASSETS							
Cash and balances with the National Bank	86,604	-	-	-	-	-	86,604
Due from banks	3,013	2,384	9	40,944	47,325	-	93,675
Loans to customers	238,473	-	-	-	-	-	238,473
Investments available for sale	56,564	19	-	-	-	-	56,583
Other financial assets	1,748	9	-	-	-	-	1,757
TOTAL FINANCIAL ASSETS	386,402	2,412	9	40,944	47,325	-	477,092
FINANCIAL LIABILITIES							
Due to banks	5,996	51	-	3,121	-	-	9,168
Customer accounts	379,321	2,383	217	4,065	25	82	386,093
Debt securities issued	29,267	-	-	-	-	-	29,267
Other financial liabilities	2,128	-	-	-	-	-	2,128
Subordinated debt	1,270	-	-	26,689	-	-	27,959
TOTAL FINANCIAL LIABILITIES	417,982	2,434	217	33,875	25	82	454,615
NET POSITION	(31,580)	(22)	(208)	7,069	47,300	(82)	

	Belarus	Russia	Other CIS	Europe	USA	Other	31 December 2008 Total
FINANCIAL ASSETS							
Cash and balances with the National Bank	23,626	-	-	-	-	-	23,626
Due from banks	11,743	330	-	73,365	3,686	-	89,124
Loans to customers	155,735	-	-	-	-	-	155,735
Investments available for sale	11,633	-	-	-	-	-	11,633
Other financial assets	2,328	-	-	-	-	-	2,328
TOTAL FINANCIAL ASSETS	205,065	330	-	73,365	3,686	-	282,446
FINANCIAL LIABILITIES							
Due to banks	119	9,571	-	3,962	-	-	13,652
Customer accounts	255,388	239	-	108	-	41	255,776
Debt securities issued	677	-	-	-	-	-	677
Other financial liabilities	2,736	-	-	-	-	-	2,736
Subordinated debt	968	-	-	-	-	-	968
TOTAL FINANCIAL LIABILITIES	259,888	9,810	-	4,070	-	41	273,809
NET POSITION	(54,823)	(9,480)	-	69,295	3,686	(41)	

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 Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Board of the Bank sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity and interest rate risks is presented in the following table. 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 interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2009 Total
FINANCIAL LIABILITIES								
Due to banks	11%	2,887	57	3,208	-	-	-	6,152
Customer accounts	10%	253,520	37,585	62,540	15,428	-	-	369,073
Debt securities issued	9%	216	433	30,241	-	-	-	30,890
Subordinated debt	7%	7	14	63	1,287	-	-	1,371
Total interest bearing liabilities at fixed rates		256,630	38,089	96,052	16,715	-	-	407,486
Due to banks	3%	8	17	75	3,107	-	-	3,207
Customer accounts	2%	87	18,545	8,282	-	-	-	26,914
Subordinated debt	8%	174	349	1,569	8,485	29,871	-	40,448
Total interest bearing liabilities at variable rates		269	18,911	9,926	11,592	29,871	-	70,569
Total interest bearing liabilities		256,899	57,000	105,978	28,307	29,871	-	478,055
Due to banks		187	-	-	-	-	-	187
Guarantees issued		6,450	-	-	-	-	-	6,450
Letters of credit not secured by cash		4,924	-	-	-	-	-	4,924
Commitments on loans and unused credit lines		7,460	-	-	-	-	-	7,460
Other financial liabilities		1,435	28	124	258	-	19	1,864
TOTAL FINANCIAL LIABILITIES		277,355	57,028	106,102	28,565	29,871	19	498,940

	Weighted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL LIABILITIES								
Due to banks	22%	9,627	-	-	3	-	-	9,630
Customer accounts	4%	87,760	11,296	61,773	36,893	-	-	197,722
Debt securities issued	13%	7	684	-	-	-	-	691
Subordinated debt	7%	5	11	48	1,097	-	-	1,161
Total interest bearing liabilities at fixed rates		97,399	11,991	61,821	37,993	-	-	209,204
Due to banks	7%	19	37	167	4,181	-	-	4,404
Customer accounts	12%	14,028	50,768	-	-	-	-	64,796
Total interest bearing liabilities at variable rates		14,047	50,805	167	4,181	-	-	69,200
Total interest bearing liabilities		111,446	62,796	61,988	42,174	-	-	278,404
Due to banks		609	-	-	-	-	-	609
Guarantees issued		12,977	-	-	-	-	-	12,977
Letters of credit not secured by cash		4,368	-	-	-	-	-	4,368
Commitments on loans and unused credit lines		22,924	-	-	-	-	-	22,924
Other financial liabilities		2,255	20	-	-	-	12	2,287
TOTAL FINANCIAL LIABILITIES		154,579	62,816	61,988	42,174	-	12	321,569

The following tables present an analysis of the interest rate risk and the liquidity risk on the statement of financial position.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2009 Total
FINANCIAL ASSETS								
Due from banks	25,444	1,614	3,826	819	-	-	-	31,703
Loans to customers	29,441	100,653	61,732	39,711	5,463	1,473	-	238,473
Investments available for sale	11,632	14,277	29,985	670	-	-	19	56,583
Total interest bearing financial assets	66,517	116,544	95,543	41,200	5,463	1,473	19	326,759
Cash and balances with the National Bank	86,604	-	-	-	-	-	-	86,604
Due from banks	61,972	-	-	-	-	-	-	61,972
Other financial assets	1,019	257	58	-	-	-	423	1,757
TOTAL FINANCIAL ASSETS	216,112	116,801	95,601	41,200	5,463	1,473	442	477,092
FINANCIAL LIABILITIES								
Due to banks	2,894	-	3,081	3,006	-	-	-	8,981
Customer accounts	251,709	54,635	67,779	11,970	-	-	-	386,093
Debt securities issued	-	-	29,267	-	-	-	-	29,267
Subordinated debt	-	-	-	1,270	26,689	-	-	27,959
Total interest bearing financial liabilities	254,603	54,635	100,127	16,246	26,689	-	-	452,300
Due to banks	187	-	-	-	-	-	-	187
Other financial liabilities	1,435	28	388	258	-	-	19	2,128
TOTAL FINANCIAL LIABILITIES	256,225	54,663	100,515	16,504	26,689	-	19	454,615
Liquidity gap	(40,113)	62,138	(4,914)	24,696	(21,226)	1,473		
Interest sensitivity gap	(188,086)	61,909	(4,584)	24,954	(21,226)	1,473		
Cumulative interest sensitivity gap	(188,086)	(126,177)	(130,761)	(105,807)	(127,033)	(125,560)		
Cumulative interest sensitivity gap as a percentage of total financial assets	(39%)	(26%)	(27%)	(22%)	(27%)	(26%)		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS								
Due from banks	36,490	6,260	40,748	994	-	-	-	84,492
Loans to customers	71,689	27,490	25,054	24,541	6,067	894	-	155,735
Investments available for sale	-	293	6,403	4,937	-	-	-	11,633
Total interest bearing financial assets	108,179	34,043	72,205	30,472	6,067	894	-	251,860
Cash and balances with the National Bank	23,626	-	-	-	-	-	-	23,626
Due from banks	4,632	-	-	-	-	-	-	4,632
Other financial assets	1,710	440	133	1	-	-	44	2,328
TOTAL FINANCIAL ASSETS	138,147	34,483	72,338	30,473	6,067	894	44	282,446
FINANCIAL LIABILITIES								
Due to banks	9,539	-	-	3,504	-	-	-	13,043
Customer accounts	100,785	60,924	59,889	34,178	-	-	-	255,776
Debt securities issued	-	677	-	-	-	-	-	677
Subordinated debt	-	-	-	968	-	-	-	968
Total interest bearing financial liabilities	110,324	61,601	59,889	38,650	-	-	-	270,464
Due to banks	609	-	-	-	-	-	-	609
Other financial liabilities	2,704	20	-	-	-	-	12	2,736
TOTAL FINANCIAL LIABILITIES	113,637	61,621	59,889	38,650	-	-	12	273,809
Liquidity gap	24,510	(27,138)	12,449	(8,177)	6,067	894		
Interest sensitivity gap	(2,145)	(27,558)	12,316	(8,178)	6,067	894		
Cumulative interest sensitivity gap	(2,145)	(29,703)	(17,387)	(25,565)	(19,498)	(18,604)		
Cumulative interest sensitivity gap as a percentage of total financial assets	(1%)	(11%)	(6%)	(9%)	(7%)	(7%)		

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

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 not an active participator on a capital market and is insignificantly exposed to market risks. The Bank manages market risk through regular monitoring of market situation.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Bank's interest rate policy is analyzed and developed by Finance Committee and approved by the Management Board of the Bank.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on reasonably possible changes in the risk variable applied to floating rate financial instruments. The level of these changes is determined by management. The sensitivity analysis below represents the effect of 5% increase/reduction in interest rates existing at 31 December 2009 and 2008, respectively, on the net profit of the Bank assuming that the change took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

Impact on profit before income taxes:

	As at 31 December 2009		As at 31 December 2008	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
Assets:				
Due from banks	986	(986)	2,606	(2,606)
Loans to customers	104	(104)	3,011	(3,011)
Investments available for sale	-	-	310	(310)
Liabilities:				
Due to banks	(153)	153	(175)	175
Customer accounts	(1,336)	1,336	(3,187)	3,187
Net impact on profit before income taxes	(399)	399	2,565	(2,565)

Impact on equity:

	As at 31 December 2009		As at 31 December 2008	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
Assets:				
Due from banks	986	(986)	2,606	(2,606)
Loans to customers	104	(104)	3,011	(3,011)
Investments available for sale	(697)	725	65	(47)
Liabilities:				
Due to banks	(153)	153	(175)	175
Customer accounts	(1,336)	1,336	(3,187)	3,187
Net impact on equity	(1,096)	1,124	2,320	(2,302)

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 the prevailing foreign currency exchange rates on its financial position and cash flows. In order to minimize currency risk, the Bank applies the following tools: limits on banks-counterparties, limits on the open currency position, the compliance with a level of exposure for one borrower, limits on advances and deposits to banks-non-residents not included in the OECD. Transactions are performed in compliance with limits set by the Credit Committee. These limits also comply with the minimum requirements of the National Bank of Republic of Belarus. The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	BYR	USD 1USD= BYR 2,863.00	EUR 1EUR= BYR 4,106.11	RUB 1RUB= BYR 94.66	Other currencies	31 December 2009 Total
FINANCIAL ASSETS						
Cash and balances with the National Bank	68,932	13,011	3,030	1,631	-	86,604
Due from banks	-	42,723	33,922	2,340	14,690	93,675
Loans to customers	68,235	97,222	69,341	3,675	-	238,473
Investments available for sale	2,864	19,004	34,715	-	-	56,583
Other financial assets	1,614	143	-	-	-	1,757
TOTAL FINANCIAL ASSETS	141,645	172,103	141,008	7,646	14,690	477,092
FINANCIAL LIABILITIES						
Due to banks	1,210	119	7,834	5	-	9,168
Customer accounts	107,581	182,158	85,491	10,861	2	386,093
Debt securities issued	-	29,267	-	-	-	29,267
Other financial liabilities	1,528	13	587	-	-	2,128
Subordinated debt	-	859	27,100	-	-	27,959
TOTAL FINANCIAL LIABILITIES	110,319	212,416	121,012	10,866	2	454,615
NET CURRENCY POSITION	31,326	(40,313)	19,996	(3,220)	14,688	

Derivative financial instruments

Fair value of derivative financial instruments are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments as at 31 December 2009:

	BYR	USD 1USD= BYR 2,863.00	EUR 1EUR= BYR 4,106.11	RUB 1RUB= BYR 94.66	Other currencies	31 December 2009 Total
Claims on swap transactions	-	41,070	18,477	-	-	59,547
Obligations on swap transactions	(19,201)	-	(41,061)	-	-	(60,262)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(19,201)	41,070	(22,584)	-	-	(715)
TOTAL CURRENCY POSITION	12,125	757	(2,588)	(3,220)	14,688	

	BYR	USD 1USD= BYR 2,200	EUR 1EUR= BYR 3,077.14	RUB 1RUB= BYR 76.89	Other currencies	31 December 2008 Total
FINANCIAL ASSETS						
Cash and balances with the National Bank	16,045	3,551	1,252	2,765	13	23,626
Due from banks	10,725	1,485	76,025	364	525	89,124
Loans to customers	24,955	83,945	37,489	9,346	-	155,735
Investments available for sale	11,633	-	-	-	-	11,633
Other financial assets	2,253	60	14	1	-	2,328
TOTAL FINANCIAL ASSETS	65,611	89,041	114,780	12,476	538	282,446
FINANCIAL LIABILITIES						
Due to banks	10	547	3,508	9,587	-	13,652
Customer accounts	50,630	59,048	142,426	2,885	787	255,776
Debt securities issued	677	-	-	-	-	677
Other financial liabilities	2,101	591	44		-	2,736
Subordinated debt	-	660	308	-	-	968
TOTAL FINANCIAL LIABILITIES	53,418	60,846	146,286	12,472	787	273,809
NET CURRENCY POSITION	12,193	28,195	(31,506)	4	(249)	

Derivative financial instruments

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

	BYR	USD 1USD= BYR 2,200	EUR 1EUR= BYR 3,077.14	RUB 1RUB= BYR 76.89	Other currencies	31 December 2008 Total
Claims on swap transactions	-	1,245	31,387	-	-	32,632
Obligations on swap transactions	-	(31,827)	(1,231)	-	-	(33,058)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	-	(30,582)	30,156	-	-	(426)
TOTAL CURRENCY POSITION	12,193	(2,387)	(1,350)	4	(249)	

Currency risk sensitivity

The following table details the Bank’s sensitivity to a change in the USD, EUR and RUB exchange rate against the BYR. At 31 December 2009 and 2008 in connection with volatility in financial markets, as it is disclosed in Note 30, the management of the Bank analyzed sensitivity to 30% increase and 10% decrease in foreign currencies’ rates against BYR. These are sensitivity rate used when reporting foreign currency risk internally to key management personnel and represent management’s assessment of the possible change in foreign currency exchange rates. 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.

	As at 31 December 2009					
	USD/BYR		EUR/BYR		RUB/BYR	
	+30%	-10%	+30%	-10%	+30%	-10%
Impact on profit or loss and equity	227	(76)	(776)	259	(966)	322

	As at 31 December 2008					
	USD/BYR		EUR/BYR		RUB/BYR	
	+30%	-10%	+30%	-10%	+30%	-10%
Impact on profit or loss and equity	(716)	239	(405)	135	-	-

Limitations of sensitivity analysis

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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