

# **JSC “Belgazprombank”**

**Independent Auditors’ Report**

**Financial Statements**

Year ended 31 December 2005

# JSC “BELGAZPROMBANK”

## TABLE OF CONTENTS

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	<b>Page</b>
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS	1
INDEPENDENT AUDITORS’ REPORT	2
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005:	
Profit and Loss Account	3
Balance Sheet	4
Statement of Changes in Shareholders’ Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-38

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION  
AND APPROVAL OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005**

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Joint Stock Company "Belgazprombank" (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as of 31 December 2005, the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal 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; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2005 were authorized for issue on 3 April 2006 by the Board.

**On behalf of the Board:**

Chairman

3 April 2006



Chief Accountant

3 April 2006



## INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of the Joint Stock Company "Belgazprombank":

We have audited the accompanying balance sheet of the Joint Stock Company "Belgazprombank" (the "Bank") as of 31 December 2005 and the related profit and loss account, statements of changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 3 to the financial statements. Financial statements as of 31 December 2004 and for the year then ended were restated to correct an error. Without qualifying our opinion, we also draw attention to Note 26, describing uncertainties currently existing in the economic environment in the Republic of Belarus.

*Deloitte & Touche*

3 April 2006

# JSC "BELGAZPROMBANK"

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005 (in millions of Belarusian Roubles)

	Notes	2005	2004 (restated)
Interest income	4, 22	29,065	24,233
Interest expense	4, 22	<u>(15,075)</u>	<u>(12,056)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES		13,990	12,177
(Provision)/recovery of provision for impairment losses on interest bearing assets	5	<u>(2,028)</u>	<u>146</u>
NET INTEREST INCOME		<u>11,962</u>	<u>12,323</u>
Net gain on securities held at fair value through profit or loss	22	2,103	3,554
Net gain on foreign exchange operations		652	2,013
Fees and commission income	6, 22	13,016	11,317
Fees and commission expense	6, 22	(1,237)	(1,356)
Other operating gains		<u>651</u>	<u>818</u>
NET NON-INTEREST INCOME		<u>15,185</u>	<u>16,346</u>
OPERATING INCOME		27,147	28,669
OPERATING EXPENSES	7, 22	<u>(21,474)</u>	<u>(21,158)</u>
PROFIT BEFORE OTHER PROVISIONS, INCOME TAXES AND LOSS ON NET MONETARY POSITION		5,673	7,511
Recovery of provision for impairment losses on other transactions	5	<u>167</u>	<u>6</u>
PROFIT BEFORE INCOME TAXES AND LOSS ON NET MONETARY POSITION		5,840	7,517
Income taxes expense	8	<u>(4,112)</u>	<u>(2,773)</u>
PROFIT BEFORE LOSS ON NET MONETARY POSITION		1,728	4,744
Loss on net monetary position due to inflation effect		<u>(1,601)</u>	<u>(3,004)</u>
NET PROFIT		<u><u>127</u></u>	<u><u>1,740</u></u>

On behalf of the Board:

Chairman

Chief Accountant

The notes on pages 7 to 38 form an integral part of these financial statements. The Independent Auditors' Report is on page 2.

# JSC "BELGAZPROMBANK"

## BALANCE SHEET AS OF 31 DECEMBER 2005 (in millions of Belarusian Roubles)

	Notes	2005	2004 (restated)
<b>ASSETS:</b>			
Cash and balances with the National Bank of the Republic of Belarus	9	19,752	29,739
Loans and advances to banks, less allowance for impairment losses	10, 22	29,298	33,870
Securities held at fair value through profit or loss	11	54,733	21,137
Loans to customers, less allowance for impairment losses	12, 22	199,834	118,860
Tangible and intangible assets, less accumulated depreciation	13	19,962	19,443
Income tax assets		232	1,021
Other assets, less allowance for impairment losses	14	5,362	3,665
<b>TOTAL ASSETS</b>		<b>329,173</b>	<b>227,735</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>			
<b>LIABILITIES:</b>			
Loans and advances from banks	15, 22	127,139	52,827
Customer accounts	16, 22	133,100	120,207
Debt securities issued	17	5,156	197
Deferred tax liabilities	8	948	964
Other liabilities	18	2,103	1,715
		268,446	175,910
Subordinated debt	19, 22	21,520	11,759
<b>Total liabilities</b>		<b>289,966</b>	<b>187,669</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	20	34,124	30,470
Retained earnings		5,083	9,596
<b>Total shareholders' equity</b>		<b>39,207</b>	<b>40,066</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>329,173</b>	<b>227,735</b>

On behalf of the Board:

Chairman



Chief Accountant



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# JSC "BELGAZPROMBANK"

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005 (in millions of Belarusian Roubles)

	Notes	Share capital	Retained earnings	Total shareholders' equity
<b>Balance as of 31 December 2003 (before restatement) inflated up to 31 December 2005</b>		30,470	9,584	40,054
Effect of restatement of deferred tax liabilities	3	-	(846)	(846)
<b>Balance as of 31 December 2003 (restated)</b>		30,470	8,738	39,208
Net profit (restated)		-	1,740	1,740
Dividends declared		-	(882)	(882)
<b>Balance as of 31 December 2004 (restated)</b>		30,470	9,596	40,066
Share capital increase		3,654	(3,654)	-
Net profit		-	127	127
Dividends declared		-	(986)	(986)
<b>Balance as of 31 December 2005</b>		<u>34,124</u>	<u>5,083</u>	<u>39,207</u>

On behalf of the Board:

Chairman



Chief Accountant



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# JSC "BELGAZPROMBANK"

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005 (in millions of Belarusian Roubles)

	Notes	2005	2004 (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax and loss on net monetary position		5,840	7,517
Adjustments for:			
Provision/(recovery of provision) for impairment losses on interest bearing assets		2,028	(146)
Recovery of provision for impairment losses on other transactions		(167)	(6)
Depreciation charge on tangible and intangible assets		1,353	1,145
Net change in interest accruals		1,240	313
Change in fair value of securities		59	(244)
Net change in recoverable value of derivative financial instruments		(144)	258
(Gain)/loss on sale of tangible assets		(52)	3
Operating profit before changes in operating assets and liabilities		10,157	8,840
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		(482)	795
Loans and advances to banks		3,756	18,710
Securities held at fair value through profit or loss		(33,599)	(5,219)
Loans to customers		(82,489)	(14,787)
Other assets		(1,585)	(503)
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		72,923	(3,434)
Customer accounts		12,759	10,268
Other liabilities		100	(520)
Cash (outflow)/inflow from operating activities before income taxes		(18,460)	14,150
Income taxes paid		(3,339)	(2,655)
Net cash (outflow)/inflow from operating activities		(21,799)	11,495
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of tangible and intangible assets		(1,586)	(1,932)
Disposals of tangible and intangible assets		144	(25)
Net cash outflow from investing activities		(1,442)	(1,957)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from subordinated debt		9,802	11,718
Dividends paid		(986)	(882)
Repayment of debt securities issued		(14,878)	(24,597)
Proceeds from debt securities issued		19,775	15,678
Net cash inflow from financing activities		13,713	1,917
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(9,528)	11,455
INFLATION EFFECT ON MONETARY ITEMS (EXCEPT VALUATION ALLOWANCES)		(1,946)	(3,945)
CASH AND CASH EQUIVALENTS, beginning of year	9	24,200	16,690
CASH AND CASH EQUIVALENTS, end of year	9	12,726	24,200

Interest paid and received by the Bank during the year ended 31 December 2005 amounted to BYR 13,531 million and BYR 28,753 million, respectively. Interest paid and received by the Bank during the year ended 31 December 2004 amounted to BYR 12,107 million and BYR 24,570 million, respectively.

On behalf of the Board:

Chairman

Chief Accountant

The notes on pages 7 to 38 form an integral part of these financial statements. The Independent Auditors' Report is on page 2.



# JSC “BELGAZPROMBANK”

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (in millions of Belarusian Roubles)

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### 1. ORGANISATION

Joint Stock Company “Belgazprombank” (the “Bank”), originally named “Ekorazvitie Bank”, was founded in 1990 in the Republic of Belarus as a joint-stock company; the name was changed to “Olimp Bank” in March 1994. During 1996 RAO “Gazprom” (Russia) and ZAO “Gazprombank” (Russia) acquired a controlling interest in the Bank. On 28 November 1997 the Bank was re-registered as open joint stock company “Belgazprombank”.

As of 31 December 2005 and 2004 the following shareholders owned the Bank’s shares:

Shareholder:	%
JSC “Gazprom”	33.91
CJSC “Gazprombank”	33.91
JSC “Beltransgaz”	23.50
Ministry of Economy of the Republic of Belarus	8.63
Other	0.05
Total	<u>100.00</u>

JSC “Gazprom” is the ultimate controlling party of the Bank.

The Bank’s registered office is located at Pritytskogo 60/2, Minsk, Republic of Belarus. The Bank’s activity is regulated by the National Bank of the Republic of Belarus (“the National Bank”), it conducts its business under license number 16. The Bank’s primary business consists of maintaining customer accounts, securities trading, foreign currency transactions and transactions with derivative instruments, loans granting and guarantees issuing.

As of 31 December 2005 and 2004 the Bank had 7 branches in the Republic of Belarus.

The average number of employees of the Bank during 2005 and 2004 was 716 and 689, respectively.

### 2. BASIS OF PRESENTATION

#### Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in millions of Belarusian roubles (“BYR millions”), unless otherwise indicated. These financial statements have been prepared on accrual basis and under historical cost convention, except for certain financial instruments measured at fair value and except for the application of International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

The Bank maintains its accounting records in accordance with Belarusian legislation. These financial statements have been prepared from the Republic of Belarus statutory accounting records and have been adjusted to conform to IFRS.

Shareholders' equity as of 31 December 2005 and 2004 and net profit for the years ended 31 December 2005 and 2004 are reconciled between Belarusian accounting legislation and IFRS as follows:

	2005			2004		
	Total equity	Share capital	Net profit	Total equity (restated)	Share capital	Net profit (restated)
<b>Statutory accounting legislation (unaudited)</b>	<b>36,393</b>	<b>26,077</b>	<b>3,479</b>	<b>36,363</b>	<b>22,084</b>	<b>3,396</b>
Effect of accrued interest	635	-	390	281	-	(215)
Provisions	(2,580)	-	(175)	(2,956)	-	415
Difference in accounting for foreign currency operations (devaluation of share capital paid in foreign currency)	-	-	(1,585)	-	-	914
Hyperinflation adjustments effect, net	6,123	26,003	(1,484)	7,507	24,367	(3,033)
Retained earnings capitalization to share capital difference	-	(17,956)	-	-	(15,981)	-
Inventory write-off	(402)	-	(118)	(311)	-	(149)
Effect of deferred income taxes	(948)	-	16	(964)	-	(118)
Other, net	(14)	-	(396)	146	-	530
<b>International Financial Reporting Standards</b>	<b><u>39,207</u></b>	<b><u>34,124</u></b>	<b><u>127</u></b>	<b><u>40,066</u></b>	<b><u>30,470</u></b>	<b><u>1,740</u></b>

### Functional currency

The functional currency of these financial statements is the Belarusian rouble.

### Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses on loans and the fair value of financial instruments.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. For regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date is accounted for in the same way as for acquired instruments.

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

## **Cash and cash equivalents**

Cash and cash equivalents for the purposes of cash flow statement include cash, unrestricted balances with the National Bank with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”) with maturity within 90 days, and precious metals. For the purposes of determining cash flows, the minimum reserve deposit required by the National Bank of the Republic of Belarus are not included as cash equivalents due to restrictions on their availability.

## **Precious metals**

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the BYR/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income/expense.

## **Loans and advances to banks**

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are measured at amortized cost using the expected repayment dates per management estimates. Amounts due from credit institutions are carried net of any allowance for impairment.

## **Securities held at fair value through profit or loss**

Securities held at fair value through profit or loss represent securities acquired principally for the purpose of selling them in the near term, or which are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit-taking, or which are derivatives (except as designated and effective hedging instrument). Securities held at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for such securities. When reliable market prices are not available or if liquidating the Bank’s position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management’s estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on securities held at fair value through profit or loss is recognized in profit and loss for the period.

## **Repurchase and reverse repurchase agreements**

The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of business.

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

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

## **Originated loans**

Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank with fixed maturities are initially recognized in accordance with the policy stated above. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market terms is recognized in the period the loan is issued as initial recognition adjustment by discounting using market rates at inception and included in the profit and loss account as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income within the profit and loss account using the effective interest method. Loans to customers that do not have fixed maturities are carried at amortized cost based on maturities estimated by the management. Loans to customers are carried net of any allowance for impairment losses.

### **Write off of loans and advances**

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

### **Non-accrual loans**

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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### **Allowance for impairment losses**

The Bank establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discontinued at the financial asset's original effective interest rate, for financial assets which are carried at amortised 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 recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in 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 the allowance for impairment losses is charged to profit and loss account and the total of the allowance for impairment losses is deducted in arriving at assets as shown in balance sheet. 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.

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

### **Tangible and intangible assets**

Tangible and intangible assets are carried at historical cost restated for inflation less accumulated depreciation and any accumulated impairment. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of tangible and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following prescribed annual rates:

Buildings	1%
Computers	10%
Vehicles and office equipment	8-10%
Intangible assets	5-15%

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

### **Impairment loss**

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference representing an impairment loss is recognized as an expense in the profit and loss account in the year it arises.

### **Finance leases**

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

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

### **Bank as lessor**

The Bank presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

### **Operating leases**

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

### **Bank as lessee**

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

## **Bank as lessor**

Lease income under operating leases is recognized as income on a straight-line basis over the lease term and included in operating income.

## **Taxation**

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

The current taxes expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account 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 taxes expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are 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, if any, can be utilized.

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

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

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 profit and loss account.

## **Deposits from banks and customers**

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

## **Subordinated debt**

Subordinated debt is initially measured at the fair value and subsequently measured at amortized cost.

## **Debt securities issued**

Debt securities issued represent promissory notes and bonds issued by the Bank for the customers. They are accounted for according the same principles used for customer and bank deposits.

## **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.

## **Derivative financial instruments**

The Bank enters into derivative financial instruments primarily for trading purposes. Derivatives entered into by the Bank include foreign currency and security forwards.

Derivative financial instruments are initially recorded and subsequently measured at fair value which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term and speculative nature. 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 profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

## **Share capital**

Share capital is recognized at cost restated for inflation.

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

## **Financial guarantees contracts issued and letters of credit**

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

## **Retirement and other benefit obligations**

The Bank does not incur any expenses in relation to provision of pensions to its employees. In accordance with the legal requirements of the Republic of Belarus, the Bank withholds pension contributions from employee salaries and transfers them into state pension fund. Current contributions by the employer are calculated as a percentage of current gross salary payments with the expense charged in the period in which the related salaries are earned. Upon retirement of employees, all pension payments are administered by the state pension fund.

## **Recognition of income and expense**

Interest income and expense are recognized on an accrual basis using effective interest rate method. Interest income also includes income earned on investments in securities. Other income is credited to profit and loss account when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission incomes/expenses are recognized on an accrual basis.

## **Fees and commission income**

Fees and commission income includes loan origination fees, loan commitment fees, loan servicing fees and loan syndication fees. Loan origination fees are deferred, together with the related direct costs, and 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 profit and loss 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 profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognised in profit and loss when the syndication has been completed. All other commissions are recognized when services are provided.

## **Foreign currency transactions**

Assets and liabilities denominated in foreign currencies are translated at the appropriate spot rates of exchange ruling at the balance sheet date. 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:

	<b>31 December 2005</b>	<b>31 December 2004</b>
BYR/USD	2,152.00	2,170.00
BYR/EUR	2,546.35	2,955.65
BYR/RUR	74.86	77.91

## **Offset of financial assets and liabilities**

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

## **Hyperinflationary accounting**

The Republic of Belarus continues to experience relatively high levels of inflation and is considered to be hyperinflationary as defined by IAS 29. Accordingly, adjustments and reclassifications made for the purposes of IFRS presentation include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian Rouble. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IAS 29 indicates that reporting operating results and financial position in Belarusian Roubles without restatement is not sufficient because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The application of IAS 29 results in an adjustment to the profit and loss account for the loss of purchasing power of the Belarusian Rouble. The gain or loss on net monetary position is calculated as the difference resulting from the restatement of non-monetary assets, shareholders' equity and profit and loss account items. Corresponding figures for the year ended 31 December 2004 have also been restated for the changes in the general purchasing power of the Belarusian Rouble for the year 2005.



The restatement was calculated using the consumer price index (“CPI”), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The CPIs for the five years ended 31 December 2005 was as follows:

Year	% change
2005	8%
2004	14%
2003	25%
2002	35%
2001	46%

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2005. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at 31 December 2005) are restated by applying the relevant index. The effect of inflation on the Bank’s net monetary position is included in the profit and loss account as a gain or loss on net monetary position.

Amounts included in the profit and loss account have been indexed by the change in the CPI based on the following assumptions:

- inflation has occurred evenly over the year;
- income and expenditures have accrued evenly over the year.

### Reclassifications

Certain reclassifications have been made to the financial statements as of 31 December 2004 and for the year then ended to conform to the presentation required for the financial statements as of 31 December 2005 and for the year then ended.

Amount	Balance sheet line as per the previous report	Balance sheet line as per current report
270	Securities purchased under agreements to repurchase	Loans and advances to banks, less allowance for impairment
280	Precious metals	Other assets

### Prior year restatements

As of 31 December 2004 the Bank did not account for deferred tax liabilities related to restatement of tangible assets in accordance with IAS 29. In 2005 the Bank restated deferred income taxes. The effect of this restatement is recognised retrospectively, and the comparative information in profit and loss account for the year 2004 was restated as required by IAS 8 “Accounting policies, changes in accounting estimates and errors”, which led to the following restatements:

Type of restatement	Amount of restatement	Period to which restatement relates	Balance sheet/ profit and loss account caption affected	Balance sheet/ profit and loss account as previously reported	Balance sheet/ profit and loss account after restated
Restatement of deferred income taxes as of 31 December 2003	846	31 December 2003	Changes in shareholders’ equity: Retained earnings (decrease)	9,584	8,738
Restatement of deferred income taxes as of 31 December 2004	964	31 December 2004	Balance sheet: Deferred tax liabilities (increase)	-	964
Restatement of deferred income taxes as of 31 December 2004	964	31 December 2004	Changes in shareholders’ equity: Retained earnings (decrease)	10,560	9,596
Restatement of deferred income taxes as of 31 December 2004	118	31 December 2004	Profit and loss account: Income taxes (increase)	2,655	2,773

## Restatements due to changes in IFRS

Certain restatements have been made to the financial statements as of 31 December 2004 and for the year then ended to comply with the changes in IAS 39 “Financial Instruments: Recognition and Measurement” (IAS 39) effective for the periods beginning on or after 1 January 2005. Such restatements have been done retrospectively to the earliest financial statements period presented.

In accordance with revised IAS 39 investment securities available for sale with carrying and fair value of 7,181 BYR million were reclassified to securities held at fair value through profit or loss. The amount of restatement as of 31 December 2004 was 7,181 BYR million.

## Effect of adoption of new standards

The Bank made an estimation of the effect of adoption of new standards and changes made in old standards, which are not yet become effective as of 31 December 2005.

In accordance with revised IAS 39 “Financial Instruments: Recognition and Measurement” for the financial statements for the period starting from 1 January 2006 financial guarantees will be accounted for in accordance with IAS 39. Also, securities which do not have quoted market prices will be accounted as securities available for sale rather than as financial assets at fair value through profit or loss. In estimation of the Bank the effect of these changes in IAS 39 will not have a significant effect on the financial position and results of operations of the Bank.

In accordance with IFRS 7 “Financial Instruments: disclosure” effective from 1 January 2007 it is required that additional information on financial instruments is disclosed. The Bank estimated the effect of this standard on its financial statements and developed an action plan to modify its accounting and reporting systems, which would provide a reliable disclosure of the required information.

## 4. NET INTEREST INCOME

	2005	2004
<b>Interest income</b>		
Interest on loans to customers	22,991	19,227
Interest on debt securities	4,037	940
Interest on loans and advances to banks	1,858	3,877
Other interest income	179	189
	<hr/>	<hr/>
Total interest income	29,065	24,233
<b>Interest expense</b>		
Interest on loans and advances from banks	8,726	5,468
Interest on customer accounts	5,969	6,336
Interest on debt securities issued	380	252
	<hr/>	<hr/>
Total interest expense	15,075	12,056
<b>Net interest income</b>	<hr/> <hr/>	<hr/> <hr/>
	13,990	12,177

## 5. ALLOWANCE FOR LOSSES AND IMPAIRMENT AND OTHER PROVISIONS

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

	<b>Loans and advances to banks</b>	<b>Loans to customers</b>	<b>Total</b>
31 December 2003	284	3,847	4,131
(Recovery of provision)/provision	(189)	43	(146)
Write-off of assets against allowance	-	(38)	(38)
Gain on net monetary position	(24)	(485)	(509)
	<u>          </u>	<u>          </u>	<u>          </u>
31 December 2004	71	3,367	3,438
(Recovery of provision)/provision	(69)	2,097	2,028
Write-off of assets against allowance	-	(6)	(6)
Gain on net monetary position	(2)	(329)	(331)
	<u>          </u>	<u>          </u>	<u>          </u>
31 December 2005	<u>          </u>	<u>          </u>	<u>          </u>

The movements in allowances for impairment losses on other transactions were as follows:

	<b>Other assets</b>	<b>Guarantees and other commitments</b>	<b>Total</b>
31 December 2003	117	139	256
(Recovery of provision)/provision	(19)	13	(6)
Gain on net monetary position	(16)	(17)	(33)
	<u>          </u>	<u>          </u>	<u>          </u>
31 December 2004	82	135	217
Recovery of provision	(40)	(127)	(167)
Gain on net monetary position	(6)	(8)	(14)
	<u>          </u>	<u>          </u>	<u>          </u>
31 December 2005	<u>          </u>	<u>          </u>	<u>          </u>

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

## 6. FEES AND COMMISSION INCOME AND EXPENSE

	2005	2004
<b>Fees and commission income:</b>		
Settlements and other services to customers	9,054	6,407
Commission on currency transactions	3,374	4,563
Commission on transactions with banks	298	232
Commission on transactions with securities	7	42
Other fees and commission income	283	73
	<hr/>	<hr/>
<b>Total fees and commission income</b>	<b>13,016</b>	<b>11,317</b>
	<hr/> <hr/>	<hr/> <hr/>
	<b>2005</b>	<b>2004</b>
<b>Fees and commission expense:</b>		
Commission on transactions with banks	746	534
Commission on currency transactions	350	776
Commission on transactions with securities	37	43
Other fees and commission expense	104	3
	<hr/>	<hr/>
<b>Total fees and commission expense</b>	<b>1,237</b>	<b>1,356</b>
	<hr/> <hr/>	<hr/> <hr/>

## 7. OPERATING EXPENSES

	2005	2004
Staff costs	11,543	11,329
Taxes, other than income taxes	2,144	2,400
Depreciation charge on tangible and intangible assets	1,353	1,145
Office expenses	1,198	1,363
Professional services fees	924	609
Software use fees	838	901
Communication	533	525
Security expenses	522	464
Transportation	348	354
Payments to deposits protection fund	332	382
Other	1,739	1,686
	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>21,474</b>	<b>21,158</b>
	<hr/> <hr/>	<hr/> <hr/>

## 8. 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 2005 and 2004, tax rate for Belarusian banks was 30% for republican tax and 4% for municipal tax, respectively (rates were charged successively, combined rate comprised 32.8%).

The Bank is subject to certain permanent tax differences due to non-tax deductibility of salary and depreciation expenses and other differences under statutory tax regulations.

With effect from 1 January 2006 republican tax rate was changed to 24% and local tax rate was changed to 3%, therefore deferred tax for 2005 was calculated using combined rate 26.28%.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2005 and 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2005 and 2004 were as follows:

	<b>2005</b>	<b>2004 (restated)</b>
Deductible temporary differences:		
Loans to banks and customers	2,955	2,739
Fair value of derivative financial instruments	150	272
Other liabilities (provisions)	573	340
	<u>3,678</u>	<u>3,351</u>
Total deductible temporary differences:	<u>3,678</u>	<u>3,351</u>
Taxable temporary differences:		
Tangible assets	6,112	5,556
Accrued interest income	635	154
Other assets	540	579
	<u>7,287</u>	<u>6,289</u>
Total taxable temporary differences:	<u>7,287</u>	<u>6,289</u>
Net taxable temporary differences:	<u>(3,609)</u>	<u>(2,938)</u>
Deferred tax liabilities at the statutory rate (26.28%, 32.8%)	<u>(948)</u>	<u>(964)</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2005 and 2004 are explained as follows:

	<b>2005</b>	<b>2004 (restated)</b>
Profit before income taxes and after loss on net monetary position	<u>4,239</u>	<u>4,513</u>
Statutory tax rate	32.80%	32.80%
Theoretical tax at the statutory tax rate	1,390	1,480
Effect of change in tax rate	(235)	-
Tax effect of permanent differences	2,957	1,293
	<u>4,112</u>	<u>2,773</u>
Income taxes expense	<u>4,112</u>	<u>2,773</u>
Current income taxes expense	4,128	2,655
(Recovery)/provision for deferred tax liabilities	(16)	118
	<u>4,112</u>	<u>2,773</u>
Income taxes expense	<u>4,112</u>	<u>2,773</u>

## 9. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

Cash and balances with the National Bank comprise:

	2005	2004
Cash on hand	8,981	7,637
Balances with the National Bank	8,570	8,600
Time deposit with the National Bank	2,200	13,500
Accrued interest	1	2
	<u>19,752</u>	<u>29,739</u>
<b>Total cash and balances with the National Bank</b>	<b><u>19,752</u></b>	<b><u>29,739</u></b>

The balances with the National Bank as of 31 December 2005 and 2004 include BYR 8,549 million and BYR 8,068 million, respectively, which represent the minimum reserve deposits required by the National Bank. The Bank is required to maintain the certain level of reserve balance at all times.

As of 31 December 2005 the time deposit with the National Bank of the Republic of Belarus was denominated in BYR and was bearing interest rate of 3%. As of 31 December 2004 it was denominated in BYR and was bearing interest rate of 6%.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	2005	2004
Cash and balances with the National Bank	19,752	29,739
Loans and advances to banks in OECD countries	1,366	2,249
Precious metals	157	280
	<u>21,275</u>	<u>32,268</u>
Less minimum reserve deposit with the National Bank	<u>(8,549)</u>	<u>(8,068)</u>
<b>Total cash and cash equivalents</b>	<b><u>12,726</u></b>	<b><u>24,200</u></b>

## 10. LOANS AND ADVANCES TO BANKS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Loans and advances to banks comprise:

	2005	2004
Correspondent accounts with other banks	22,440	5,494
Loans and advances to banks	4,000	28,169
Loans under reverse repurchase agreements	2,854	270
Accrued interest	4	8
	<u>29,298</u>	<u>33,941</u>
Less allowance for impairment losses	<u>-</u>	<u>(71)</u>
<b>Total loans and advances to banks, net</b>	<b><u>29,298</u></b>	<b><u>33,870</u></b>

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As of 31 December 2005 and 2004, the advances to banks included fixed amounts of BYR 340 million and BYR 334 million, respectively, placed with HSBC Bank (Great Britain) as a guarantee deposit on operations with Europay plastic cards.

As of 31 December 2005 the advances to banks included fixed amount of BYR 2,430 million placed with OJSC Alfabank (Russia) as a guarantee deposit on securities operations.

As of 31 December 2005 and 2004, the advances to banks include fixed amounts of BYR 54 million placed with Commerzbank (Germany) as a security against letters of credit issued by the Bank for its customers.

As of 31 December 2005 the advances to banks included fixed amount of BYR 335 million placed with Dresdner Bank (Germany) as a security against letters of credit issued by the Bank to its customers.

As of 31 December 2005 and 2004 the Bank had 2 and 3 exposures totalling BYR 13,193 million and BYR 20,095 million, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2005 and 2004 the Bank included in loans and advances to banks under reverse repurchase agreements amounting to BYR 2,854 million and BYR 270 million with maturity of one month from the reporting date. Such agreements are secured with short-term government bonds and long-term government bonds, respectively. As of 31 December 2005 securities received as collateral were simultaneously re-pledged for the loans received under repurchase agreements (Note 15).

## 11. SECURITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

As of 31 December 2005 and 2004 included in securities held at fair value through profit or loss were:

	2005	2004
Long-term government bonds ("GDO")	4,780	13,002
Short-term government bonds ("GKO")	33,381	954
Short-term bonds of the National Bank ("KO")	6,187	-
Certificates of deposit of Belarusian banks	7,526	2,704
Promissory notes of Belarusian banks	2,617	4,243
Equity securities	242	234
	<hr/>	<hr/>
<b>Total securities</b>	<u>54,733</u>	<u>21,137</u>

GKOs are Belarusian Rouble denominated government securities with short-term maturities that are sold at discount to nominal value by the Ministry of Finance of the Republic of Belarus.

GDOs are Belarusian Rouble denominated discount bearing government securities with long-term maturities that are issued by the Ministry of Finance of the Republic of Belarus.

KOs are Belarusian Rouble denominated securities with short-term maturities that are sold at discount to nominal value by the National Bank of the Republic of Belarus.

Certificates of deposit of Belarusian banks in the Bank's portfolio are Belarusian Rouble denominated debt securities with maturity within 1 month after the reporting date. Interest rate on these certificates as of 31 December 2005 and 2004 were 12% - 16% and 26%, respectively.

Promissory notes of Belarusian banks in the Bank's portfolio are Belarusian Rouble denominated debt securities purchased with discount to nominal value with maturities within 4 months after the reporting date.

As of 31 December 2005, included into promissory notes portfolio is BYR 2,617 million notes of OJSC "Belpromstroibank" (Belarus) which represented 100% of promissory notes of Belarusian banks held by the Bank. Interest rate on these notes varied from 13% to 15%.

As of 31 December 2004, included into promissory notes portfolio is BYR 3,712 million notes of JSC "Belagroprombank" (Belarus), which represented 88% of promissory notes of Belarusian banks held by the Bank.

## 12. LOANS TO CUSTOMERS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Loans to customers comprise:

	2005	2004
Originated loans	187,360	113,385
Net investment in finance leases	17,203	8,695
	<u>204,563</u>	<u>122,080</u>
Accrued interest	400	147
Less allowance for impairment losses	(5,129)	(3,367)
	<u>(5,129)</u>	<u>(3,367)</u>
<b>Total loans to customers, net</b>	<u><u>199,834</u></u>	<u><u>118,860</u></u>

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

Loans to customers by type of collateral were as follows:

	2005	2004
Loans collateralized by equipment	73,658	42,942
Loans collateralized by goods in turnover	34,410	32,833
Loans collateralized by real estate	28,945	15,101
Loans collateralized by corporate guarantees	19,039	9,182
Loans collateralized by liens over assets	15,672	8,158
Loans collateralized by cash	1,310	2,178
Loans collateralized by other types of collateral	31,393	5,187
Unsecured loans	136	6,499
	<u>204,563</u>	<u>122,080</u>
<b>Total loans to customers</b>	<u><u>204,563</u></u>	<u><u>122,080</u></u>

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

As of 31 December 2005 and 2004 the Bank had 2 and 1 loans totalling BYR 11,978 million and BYR 4,293 million, respectively, which individually exceeded 10% of the Bank's equity.

<b>Analysis by sector</b>	<b>2005</b>	<b>2004</b>
Manufacturing	78,256	64,805
Trading	46,035	21,847
Individuals	38,228	10,615
Transport	13,719	10,360
Leasing companies	11,631	5,220
Construction	3,756	2,737
Other	12,938	6,496
	<u>204,563</u>	<u>122,080</u>
<b>Total loans to customers</b>	<u><u>204,563</u></u>	<u><u>122,080</u></u>

The components of net investment in finance leases as of 31 December 2005 and 2004 are as follows:

	2005	2004
Minimum lease payments	22,274	10,456
Less: unearned finance income	(5,071)	(1,761)
	<u>17,203</u>	<u>8,695</u>
Net investment in finance leases	<u><u>17,203</u></u>	<u><u>8,695</u></u>



The amount of future minimum lease payments due from customers under finance leases as of 31 December 2005 and 2004 are as follows:

	2005	2004
Not later than one year	6,312	1,672
Later than one year and not later than five years	<u>15,962</u>	<u>8,784</u>
Minimum lease payments	<u><u>22,274</u></u>	<u><u>10,456</u></u>

### 13. TANGIBLE AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION

Tangible and intangible assets comprise:

	Buildings	Computers	Vehicles and equipment	Construction in progress	Intangible assets	Total
<b>At restated cost:</b>						
31 December 2004	13,624	4,307	6,551	689	336	25,507
Additions	1,252	500	446	145	159	2,502
Disposals	<u>(10)</u>	<u>(43)</u>	<u>(269)</u>	<u>(538)</u>	<u>(1)</u>	<u>(861)</u>
31 December 2005	<u>14,866</u>	<u>4,764</u>	<u>6,728</u>	<u>296</u>	<u>494</u>	<u>27,148</u>
<b>Accumulated depreciation:</b>						
31 December 2004	2,119	1,558	2,283	-	104	6,064
Charge for the period	151	458	715	-	29	1,353
Disposals	<u>(2)</u>	<u>(36)</u>	<u>(192)</u>	<u>-</u>	<u>(1)</u>	<u>(231)</u>
31 December 2005	<u>2,268</u>	<u>1,980</u>	<u>2,806</u>	<u>-</u>	<u>132</u>	<u>7,186</u>
<b>Net book value</b>						
31 December 2005	<u><u>12,598</u></u>	<u><u>2,784</u></u>	<u><u>3,922</u></u>	<u><u>296</u></u>	<u><u>362</u></u>	<u><u>19,962</u></u>
<b>Net book value</b>						
31 December 2004	<u><u>11,505</u></u>	<u><u>2,749</u></u>	<u><u>4,268</u></u>	<u><u>689</u></u>	<u><u>232</u></u>	<u><u>19,443</u></u>

### 14. OTHER ASSETS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Other assets comprise:

	2005	2004
Taxes receivable, other than income taxes	1,947	946
Other debtors	1,348	882
Tangible assets purchased for leasing to clients	1,031	902
Prepaid expenses	205	323
Precious metals	157	280
Other	<u>710</u>	<u>414</u>
	5,398	3,747
Less allowance for impairment losses on other assets	<u>(36)</u>	<u>(82)</u>
<b>Total other assets, net</b>	<u><u>5,362</u></u>	<u><u>3,665</u></u>

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

## 15. LOANS AND ADVANCES FROM BANKS

Loans and advances from banks comprise:

	2005	2004
Time deposits	68,468	29,415
Syndicated loan from banks	32,409	-
Bank Commerciale pour l'Europe du Nord (Eurobank) S.A., France (8.77%)	10,760	-
Altalanos Ertekeforgalmi Bank RT, Hungary (6.84%)	6,494	-
Bank Finantia Securities Ltd, Portugal (6.84%)	4,330	-
CJSC «Gazprombank» (CJSC), Russia (6.84%)	4,330	-
Commerzbank AG, Germany (6.84%)	4,330	-
Nova Ljubljanska Banka D.D., Slovenia (6.84%)	2,165	-
Loan received under EBRD credit line	12,482	18,451
Loan received under IFC credit line	6,456	-
Correspondent accounts of other banks	2,884	4,764
Loans under repurchase agreements	2,854	-
Accrued interest	1,586	197
	<hr/>	<hr/>
<b>Total loans and advances from banks</b>	<b>127,139</b>	<b>52,827</b>
	<hr/> <hr/>	<hr/> <hr/>

The Bank was certified to participate in the credit line of the European Bank for Reconstruction and Development ("EBRD") to support small and medium size enterprises in the Republic of Belarus. The interest rate on this facility is LIBOR plus 4.5%. Maturities of individual tranches range from 3 to 5 years. The Bank bears all credit risks on loans granted to customers in relation to this line. Since 1 January 2006 the interest rate on additionally received USD 4 million is LIBOR plus 4%.

On 17 June 2005 the Bank signed loan agreement with International Financial Corporation for the amount of USD 3 million. The interest rate on this facility is LIBOR plus 4.35%, maturity – 6 years.

As of 31 December 2005 the Bank included in loans and advances from banks repurchase agreements amounting to BYR 2,854 million with maturity of one month. Such agreements are secured with the short term government bonds which were received as collateral for reverse repurchase agreements (Note 10).

## 16. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2005	2004
Time deposits	61,262	41,840
Repayable on demand	71,101	77,764
Accrued interest	737	603
	<hr/>	<hr/>
<b>Total customer accounts</b>	<b>133,100</b>	<b>120,207</b>
	<hr/> <hr/>	<hr/> <hr/>

As of 31 December 2005 and 2004 customer accounts of BYR 1,768 million and BYR 631 million, respectively, were held as security deposits against letters of credit.

As of 31 December 2004 the balance of one customer totalling BYR 4,687 million exceeded 10% of the Bank's equity.

## 17. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	2005	2004
Discount bearing bonds	2,495	-
Discount or interest bearing promissory notes	2,451	165
Interest free promissory notes	146	30
Accrued interest	64	2
	<u>5,156</u>	<u>197</u>
<b>Total debt securities issued</b>	<b><u>5,156</u></b>	<b><u>197</u></b>

In October 2005 the Bank issued discount bearing bonds denominated in Belarusian Roubles with maturity within 180 days since the date of issue which are included in category "A" quoted list of the Belarusian currency and stock exchange.

As of 31 December 2005 interest rates on promissory notes denominated in foreign currency ranged from 5% to 6%, interest rate on the promissory notes denominated in Belarusian Roubles was 12% per annum, and maturity of most of these securities was up to 1 month.

Maturity of interest free notes is within 1 month from respective reporting dates.

## 18. OTHER LIABILITIES

Other liabilities comprise:

	2005	2004
Payables for tangible assets	682	115
Taxes payable, other than income taxes	524	570
Payables to the National Bank on transactions with precious metals	289	325
Liability on derivative financial instruments	150	294
Advances received	66	16
Accrued expenses	10	130
Provisions for guarantees	-	135
Other	382	130
	<u>2,103</u>	<u>1,715</u>
<b>Total other liabilities</b>	<b><u>2,103</u></b>	<b><u>1,715</u></b>

Liability on derivative financial instruments as of 31 December 2005 and 2004 comprised the following:

	2005	2004
Claims on forward agreements	37,089	50,432
Obligations on forward agreements	<u>(37,239)</u>	<u>(50,726)</u>
	<u>(150)</u>	<u>(294)</u>
Fair value	<u>(150)</u>	<u>(294)</u>

## 19. SUBORDINATED DEBT

	<b>Maturity date</b>	<b>Interest rate</b>	<b>2005</b>	<b>2004</b>
Subordinated loan from CJSC "Gazprombank" (Russia)	2011	LIBOR+6%	10,760	11,718
Subordinated loan from CJSC "Gazprombank" (Russia)	2012	LIBOR+6%	10,760	-
Accrued interest expenses			-	41
<b>Total subordinated debt</b>			<u>21,520</u>	<u>11,759</u>

Repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

Subordinated loan was received in December 2004 in USD and represents the BYR equivalent of USD 5 million as of 31 December 2004. The loan bears interest rate of 12-month USD LIBOR plus 6% per annum. Additional amount of USD 5 million was received in March 2005 with maturity in 2012.

## 20. SHARE CAPITAL

As of 31 December 2005 the issued capital of the Bank consisted of 25,816,955,136 common shares and 260,044,863 preference shares all with a par value of BYR 1 (historical cost).

As of 1 January 2005 in the statutory accounts the Bank had certain reserves, calculated in accordance with Belarusian accounting rules. During 2005 the Bank has increased the value of share capital by capitalisation of such reserves in the amount of BYR 3,654 million.

As of 31 December 2004 the issued capital of the Bank consisted of 20,244,448,728 common shares and 203,915,018 preference shares all with a par value of BYR 1 (historical cost).

All common shares rank equally and those contributed in foreign currency have no preferential legal status. The preference shares have no voting rights but rank ahead of the common shares in the event of liquidation of the Bank. Preference shares are entitled to dividends at a percentage set annually by the shareholders' meeting, applied to their nominal value.

During the years 2005 and 2004 dividends were paid in the amount of BYR 986 million and BYR 882 million, respectively, including BYR 976 million and BYR 873 million, respectively, on common shares and BYR 10 million and BYR 9 million, respectively, on preference shares.

On 31 March 2006 shareholders' meeting authorised payment of dividends for the year 2005 in the amount of BYR 1,043 million, including BYR 1,033 million on common shares and BYR 10 million on preference shares.

## 21. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2005 and 2004, the nominal or contract amounts and risk-weighted amounts were:

	2005		2004	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
<b>Contingent liabilities and credit commitments</b>				
Guarantees issued and similar commitments	6,945	6,945	5,329	5,329
Letters of credit	2,439	336	631	-
Commitments on credits and unused credit lines	31,442	-	20,157	3,934
<b>Total contingent liabilities and credit commitments</b>	<u>40,826</u>	<u>7,281</u>	<u>26,117</u>	<u>9,263</u>

**Capital commitments** - The Bank had no material commitments for capital expenditures outstanding as of 31 December 2005 and 2004.

**Operating lease commitments** - The future minimum lease payments under non cancellable operating leases of premises acting as of 31 December 2005 and 2004 are as follows:

	2005	2004
Not later than 1 year	205	405
Later than 1 year and not later than 5 years	448	835
<b>Total operating lease commitments</b>	<u>653</u>	<u>1,240</u>

**Insurance** - In 2005 the head office building was insured for the amount of BYR 1,075 million. During the year 2004, the Bank's premises were not insured.

**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 from the Republic of Belarus in accordance with the laws and regulations of the country. As of 31 December 2005 and 2004, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## 22. TRANSACTIONS WITH RELATED PARTIES

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

- enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates – enterprises in which the Bank has significant influence and which are neither subsidiaries nor joint ventures of the investor;
- individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals;

- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank;
- (f) parties with joint control over the Bank;
- (g) joint ventures in which the Bank is a venture; and
- (h) post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party to the Bank.

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

	31 December 2005		31 December 2004	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans and advances to banks, gross	5,727	29,298	1,688	33,941
Loans to customers, gross	2,020	204,963	1,968	122,227
Allowance for impairment losses on loans to customers	-	(5,129)	(38)	(3,367)
Loans and advances from banks	26,632	127,139	11,721	52,827
Customer accounts	14,740	133,100	42,717	120,207
Subordinated debt	21,520	21,520	11,759	11,759
Guarantees issued	-	6,945	24	5,329

During the years ended 31 December 2005 and 2004 the Bank originated loans and advances to banks and customers - related parties amounting to BYR 1,146,403 million and BYR 1,015,683 million, respectively, and received loans and advances repaid amounting to BYR 1,142,359 million and BYR 1,021,020 million, respectively.

During the years ended 31 December 2005 and 2004 the Bank received deposits and advances from banks and customers - related parties amounting to BYR 5,512,492 million and BYR 4,697,162 million, respectively, and repaid deposits and advances amounting to BYR 5,468,469 million and BYR 4,676,262 million, respectively.

Included in the profit and loss account for the years ended 31 December 2005 and 2004 are the following amounts on transactions with related parties:

	2005		2004	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	229	29,065	386	24,233
Interest expense	(6,904)	(15,075)	(1,184)	(12,056)
Fees and commission income	727	13,016	2,278	11,317
Fees and commission expense	(51)	(1,237)	(2)	(1,356)
Net gain on securities held at fair value through profit or loss	-	2,103	(11)	3,554
Other operating gains	18	651	-	818
Operating expenses	(2,000)	(21,474)	-	(21,158)

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. As no readily available market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. 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.

As of 31 December 2005 and 2004 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

***Cash and balances with the National Bank of the Republic of Belarus*** - For these short-term instruments the carrying amount is a reasonable estimate of fair value.

***Loans and advances to banks*** - The carrying amount of these assets is a reasonable estimate of their fair value.

***Securities held at fair value through profit or loss*** – Fair value of securities held at fair value through profit or loss was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities management estimation of the fair value was used.

***Loans to customers*** - The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for impairment losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for impairment losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

***Derivative financial instruments*** - Derivative financial instruments are stated at fair value.

**Loans and advances from banks** - The carrying amount of loans and advances from banks is a reasonable estimate of their fair value, as interest rates on these instruments approximate the market rates.

**Customer accounts** - The carrying amount of deposits and current accounts of the Bank's customers is a reasonable estimate of their fair value.

**Debt securities issued** - Debt securities issued are stated at amortised cost, which approximates fair value.

**Subordinated debt** - The carrying amount of subordinated debt approximates its fair value.

## 24. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital adequacy ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the National Bank of Belarus
0%	Loans to customers secured by cash
0%	Letters of credit secured by customer deposits
20%	Loans and advances to banks for up to 1 year
50%	Unsecured letters of credit
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Loans to customers
100%	Guarantees
100%	Other assets

The Bank's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual Amount (in BYR million)	Amount for capital adequacy purposes (in BYR million)	Ratio for capital adequacy purposes	Minimum Required Ratio
<b>As of 31 December 2005</b>				
Total capital	39,207	58,811	23.98%	8 %
Tier 1 capital	39,207	39,207	15.99%	4 %
<b>As of 31 December 2004 (restated)</b>				
Total capital	40,066	51,825	20.59%	8 %
Tier 1 capital	40,066	40,066	15.92%	4 %

As of 31 December 2005 and 2004 the Bank included in the computation of total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of tier 1 capital (Note 19). 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.



## **25. RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

The Bank manages the following risks:

### **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.

The Resource Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimisation.

The following table presents an analysis of interest rate risk and liquidity risk.

	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 2005 Total
<b>ASSETS</b>							
Cash and balances with the National Bank	2,200	-	-	-	-	-	2,200
Loans and advances to banks	7,844	-	-	1,440	-	-	9,284
Securities held at fair value through profit of loss	9,422	692	-	-	-	-	10,114
Loans to customers, less allowance for impairment losses	16,391	23,949	80,544	75,781	2,768	-	199,433
<b>Total interest bearing assets</b>	<b>35,857</b>	<b>24,641</b>	<b>80,544</b>	<b>77,221</b>	<b>2,768</b>	<b>-</b>	<b>221,031</b>
Cash and balances with the National Bank	9,003	-	-	-	-	8,549	17,552
Loans and advances to banks	19,941	14	59	-	-	-	20,014
Securities held at fair value through profit of loss	44,377	-	-	-	-	242	44,619
Loans to customers, less allowance for impairment losses	261	10	27	1	102	-	401
Tangible and intangible assets, less accumulated depreciation	-	-	-	-	-	19,962	19,962
Income tax assets	232	-	-	-	-	-	232
Other assets, less allowance for impairment losses	2,265	331	466	2,071	-	229	5,362
<b>Total non-interest bearing assets</b>	<b>76,079</b>	<b>355</b>	<b>552</b>	<b>2,072</b>	<b>102</b>	<b>28,982</b>	<b>108,142</b>
<b>TOTAL ASSETS</b>	<b>111,936</b>	<b>24,996</b>	<b>81,096</b>	<b>79,293</b>	<b>2,870</b>	<b>28,982</b>	<b>329,173</b>
<b>LIABILITIES</b>							
Loans and advances from banks	27,419	7,026	37,557	49,946	-	-	121,948
Customer accounts	82,222	16,697	17,992	12,327	3,290	-	132,528
Debt securities issued	2,285	-	2,693	32	-	-	5,010
Subordinated debt	-	-	-	-	21,520	-	21,520
<b>Total interest bearing liabilities</b>	<b>111,926</b>	<b>23,723</b>	<b>58,242</b>	<b>62,305</b>	<b>24,810</b>	<b>-</b>	<b>281,006</b>
Loans and advances from banks	3,985	613	584	-	9	-	5,191
Customer accounts	564	1	-	7	-	-	572
Debt securities issued	146	-	-	-	-	-	146
Deferred tax liabilities	-	-	-	76	872	-	948
Other liabilities	1,247	203	432	221	-	-	2,103
<b>Total non-interest bearing liabilities</b>	<b>5,942</b>	<b>817</b>	<b>1,016</b>	<b>304</b>	<b>881</b>	<b>-</b>	<b>8,960</b>
<b>TOTAL LIABILITIES</b>	<b>117,868</b>	<b>24,540</b>	<b>59,258</b>	<b>62,609</b>	<b>25,691</b>	<b>-</b>	<b>289,966</b>
Liquidity gap	(5,932)	456	21,838	16,684	(22,821)		
Interest sensitivity gap	(76,069)	918	22,302	14,916	(22,042)		
Cumulative interest sensitivity gap	(76,069)	(75,151)	(52,849)	(37,933)	(59,975)		
Cumulative interest sensitivity gap as a percentage of total assets	(23%)	(23%)	(16%)	(12%)	(18%)		

	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 2004 (restated) Total
<b>ASSETS</b>							
Cash and balances with the National Bank	13,500	-	-	-	-	-	13,500
Loans and advances to banks, less allowance for impairment losses	28,418	4	18	6	-	-	28,446
Securities held at fair value through profit of loss	6,422	348	-	-	-	-	6,770
Loans to customers, less allowance for impairment losses	8,917	17,329	58,093	34,378	-	-	118,717
Total interest bearing assets	<u>57,257</u>	<u>17,681</u>	<u>58,111</u>	<u>34,384</u>	<u>-</u>	<u>-</u>	<u>167,433</u>
Cash and balances with the National Bank	8,171	-	-	-	-	8,068	16,239
Loans and advances to banks, less allowance for impairment losses	5,366	-	58	-	-	-	5,424
Securities held at fair value through profit of loss	10,520	960	547	2,169	-	171	14,367
Loans to customers, less allowance for impairment losses	143	-	-	-	-	-	143
Tangible and intangible assets, less accumulated depreciation	-	-	-	-	-	19,443	19,443
Income tax assets	1,021	-	-	-	-	-	1,021
Other assets, less allowance for impairment losses	1,250	1,317	56	1,042	-	-	3,665
Total non-interest bearing assets	<u>26,471</u>	<u>2,277</u>	<u>661</u>	<u>3,211</u>	<u>-</u>	<u>27,682</u>	<u>60,302</u>
<b>TOTAL ASSETS</b>	<u>83,728</u>	<u>19,958</u>	<u>58,772</u>	<u>37,595</u>	<u>-</u>	<u>27,682</u>	<u>227,735</u>
<b>LIABILITIES</b>							
Loans and advances from banks	18,518	1,508	13,098	14,742	-	-	47,866
Customer accounts	7,338	7,941	14,196	11,230	1,136	-	41,841
Debt securities issued	95	62	-	-	8	-	165
Other liabilities	132	162	-	-	-	-	294
Subordinated debt	-	-	-	-	11,718	-	11,718
Total interest bearing liabilities	<u>26,083</u>	<u>9,673</u>	<u>27,294</u>	<u>25,972</u>	<u>12,862</u>	<u>-</u>	<u>101,884</u>
Loans and advances from banks	4,911	-	50	-	-	-	4,961
Customer accounts	78,366	-	-	-	-	-	78,366
Debt securities issued	32	-	-	-	-	-	32
Deferred tax liabilities	-	-	-	77	887	-	964
Other liabilities	635	124	393	4	-	265	1,421
Subordinated debt	41	-	-	-	-	-	41
Total non-interest bearing liabilities	<u>83,985</u>	<u>124</u>	<u>443</u>	<u>81</u>	<u>887</u>	<u>265</u>	<u>85,785</u>
<b>TOTAL LIABILITIES</b>	<u>110,068</u>	<u>9,797</u>	<u>27,737</u>	<u>26,053</u>	<u>13,749</u>	<u>265</u>	<u>187,669</u>
Liquidity gap	(26,340)	10,161	31,035	11,542	(13,749)		
Interest sensitivity gap	31,174	8,008	30,817	8,412	(12,862)		
Cumulative interest sensitivity gap	<u>31,174</u>	<u>39,182</u>	<u>69,999</u>	<u>78,411</u>	<u>65,549</u>		
Cumulative interest sensitivity gap as a percentage of total assets	<u>14%</u>	<u>17%</u>	<u>31%</u>	<u>34%</u>	<u>29%</u>		

Asset and liability maturity periods and the ability to replace interest bearing 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 rates.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Bank's previous experience indicate that these deposits are a stable and long-term source of finance for the Bank.

### Liquidity risk of derivative financial instruments

Analysis by types of derivatives' contracts as of 31 December 2005 and 2004 is presented in the table below:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	2005 BYR mln
Receivable under forward deals	15,914	12	-	-	15,926
Payable under forward deals	(16,052)	(24)	-	-	(16,076)
Net position on derivative financial instruments	(138)	(12)	-	-	(150)

  

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	2004 BYR mln
Receivable under forward deals	43,492	6,940	-	-	50,432
Payable under forward deals	(43,624)	(7,102)	-	-	(50,726)
Net position on derivative financial instruments	(132)	(162)	-	-	(294)

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

The Resource Department manages these risks through setting limits for the banking services and control of the following: limits for the loans portfolio in the Bank's assets corresponding to susceptible obligations, limits for one securities issuer, and loss limits. The Resource Department manages these risks also through the analysis of the yield correspondence of the assets and liabilities, and also the existence of the interest rates fluctuations susceptible assets and liabilities. The Department prevents the allocation of attracted funds to the non-profitable assets.

	BYR	2005 USD, EUR	Other currencies	BYR	2004 USD, EUR	Other currencies
<b>ASSETS</b>						
Loans and advances to banks	13.24%	7.12%	4.79%	21.9%	5.3%	13.7%
Loans to customers	18.04%	10.58%	16.40%	26.1%	10.4%	27.6%
Securities held at fair value through profit or loss	14.94%	10.60%	-	22.2%	29.5%	-
<b>LIABILITIES</b>						
Loans and advances from banks	9.42%	7.43%	10.34%	20.4%	5.6%	7.7%
Customer accounts	12.33%	7.55%	7.42%	18.2%	7.6%	9.8%
Debt securities issued	10.16%	6.27%	-	14.4%	5.4%	-
Subordinated debt	-	9.70%	-	-	9%	-

## 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 effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Resource Department performs currency risk management through management of open currency position, which enables the Bank to minimize losses from significant fluctuations of exchange rates of national and foreign currencies.

	BYR	USD 1USD= 2,152 BYR	EUR 1EUR= 2,546.35 BYR	RUR 1 RUR = 74.86 BYR	Other currencies	31 December 2005  Total
<b>ASSETS</b>						
Cash and balances with the National Bank	15,448	1,559	1,972	753	20	19,752
Loans and advances to banks	6,888	11,510	974	9,607	319	29,298
Securities held at fair value through profit of loss	54,733	-	-	-	-	54,733
Loans to customers, less allowance for impairment losses	29,890	134,099	30,618	5,227	-	199,834
Tangible and intangible assets, less accumulated depreciation	19,962	-	-	-	-	19,962
Income tax assets	232	-	-	-	-	232
Other assets, less allowance for impairment losses	4,529	695	138	-	-	5,362
<b>TOTAL ASSETS</b>	<b>131,682</b>	<b>147,863</b>	<b>33,702</b>	<b>15,587</b>	<b>339</b>	<b>329,173</b>
<b>LIABILITIES</b>						
Loans and advances from banks	12,002	81,429	30,711	2,997	-	127,139
Customer accounts	62,757	49,567	9,440	11,283	53	133,100
Debt securities issued	3,061	2,095	-	-	-	5,156
Deferred tax liabilities	948	-	-	-	-	948
Other liabilities	634	289	1,065	115	-	2,103
Subordinated debt	-	21,520	-	-	-	21,520
<b>TOTAL LIABILITIES</b>	<b>79,402</b>	<b>154,900</b>	<b>41,216</b>	<b>14,395</b>	<b>53</b>	<b>289,966</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>52,280</b>	<b>(7,037)</b>	<b>(7,514)</b>	<b>1,192</b>	<b>286</b>	

The following table presents analysis of currency risk on derivative contracts as of 31 December 2005:

	BYR	USD 1USD= 2,152 BYR	EUR 1EUR= 2,546.35 BYR	RUR 1 RUR = 74.86 BYR	Other currencies	31 December 2005 Total
Receivable under forward deals	-	28,061	6,874	2,154	-	37,089
Payable under forward deals	(9,618)	(25,041)	-	(2,580)	-	(37,239)
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>(9,618)</b>	<b>3,020</b>	<b>6,874</b>	<b>(426)</b>	<b>-</b>	<b>(150)</b>
<b>TOTAL OPEN POSITION</b>	<b>42,662</b>	<b>(4,017)</b>	<b>(640)</b>	<b>766</b>	<b>286</b>	

	<b>BYR</b>	<b>USD</b> 1USD= 2,170 BYR	<b>EUR</b> 1EUR= 2,955.65 BYR	<b>RUR</b> 1 RUR = 77.91 BYR	<b>Other currencies</b>	<b>31 Decemb er 2004 (restate d) Total</b>
<b>ASSETS</b>						
Cash and balances with the National Bank	25,523	1,975	964	1,228	49	29,739
Loans and advances to banks, less allowance for impairment losses	28,261	2,114	1,237	2,088	170	33,870
Securities held at fair value through profit of loss	21,137	-	-	-	-	21,137
Loans to customers, less allowance for impairment losses	18,462	75,854	21,376	3,168	-	118,860
Tangible and intangible assets, less accumulated depreciation	19,443	-	-	-	-	19,443
Income tax assets	1,021	-	-	-	-	1,021
Other assets, less allowance for impairment losses	2,977	150	151	49	338	3,665
<b>TOTAL ASSETS</b>	<b>116,824</b>	<b>80,093</b>	<b>23,728</b>	<b>6,533</b>	<b>557</b>	<b>227,735</b>
<b>LIABILITIES</b>						
Loans and advances from banks	4,385	42,466	2,861	3,115	-	52,827
Customer accounts	76,684	31,620	6,624	5,230	49	120,207
Debt securities issued	94	103	-	-	-	197
Deferred tax liabilities	964	-	-	-	-	964
Subordinated debt	-	11,759	-	-	-	11,759
Other liabilities	710	311	477	28	189	1,715
<b>TOTAL LIABILITIES</b>	<b>82,837</b>	<b>86,259</b>	<b>9,962</b>	<b>8,373</b>	<b>238</b>	<b>187,669</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>33,987</b>	<b>(6,166)</b>	<b>13,766</b>	<b>(1,840)</b>	<b>319</b>	

The following table presents analysis of currency risk on derivative contracts as of 31 December 2004:

	<b>BYR</b>	<b>USD</b> 1USD= 2,170 BYR	<b>EUR</b> 1EUR= 2,955.65 BYR	<b>RUR</b> 1 RUR = 77.91 BYR	<b>Other currencies</b>	<b>31 December 2004 Total</b>
Receivable under forward deals	-	30,609	-	19,823	-	50,432
Payable under forward deals	(11,830)	(19,907)	(3,829)	(15,160)	-	(50,726)
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>(11,830)</b>	<b>10,702</b>	<b>(3,829)</b>	<b>4,663</b>	<b>-</b>	<b>(294)</b>
<b>TOTAL OPEN POSITION</b>	<b>22,157</b>	<b>4,536</b>	<b>9,937</b>	<b>2,823</b>	<b>319</b>	

### Credit risk

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

The Credit Committee approves every new loan and lease transaction, and also all changes to these contracts. The Credit Department performs the overall monitoring of the current situation.

## Geographical concentration

The Bank's Management optimizes the risks related to changes in the legislation and instructions and to the influence of these changes to the Bank's operations. Preliminary risk control is done by the Department of international settlements and correspondent relations based on the results of the analysis of the correspondents banks' financial statements, credit ratings of the countries, cases of default, openness of the currency market, etc. To decrease the country risk the limits for correspondent banks are used, stated by the Finance Committee. The further control is made by the Customer Service Department. When the increased risk is identified the Bank's management makes the decision whether to conclude the deal.

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

	<b>Belarus</b>	<b>CIS</b>	<b>OECD countries</b>	<b>Other countries</b>	<b>31 December 2005 Total</b>
<b>ASSETS</b>					
Cash and balances with the National Bank	19,752	-	-	-	19,752
Loans and advances to banks	14,502	12,628	2,095	73	29,298
Securities held at fair value through profit of loss	54,733	-	-	-	54,733
Loans to customers, less allowance for impairment losses	199,834	-	-	-	199,834
Tangible and intangible assets, less accumulated depreciation	19,962	-	-	-	19,962
Income tax assets	232	-	-	-	232
Other assets, less allowance for impairment losses	5,362	-	-	-	5,362
<b>TOTAL ASSETS</b>	<u>314,377</u>	<u>12,628</u>	<u>2,095</u>	<u>73</u>	<u>329,173</u>
<b>LIABILITIES</b>					
Loans and advances from banks	39,461	31,921	49,939	5,818	127,139
Customer accounts	131,329	1,623	148	-	133,100
Debt securities issued	5,156	-	-	-	5,156
Deferred tax liabilities	948	-	-	-	948
Other liabilities	2,103	-	-	-	2,103
Subordinated debt	-	21,520	-	-	21,520
<b>TOTAL LIABILITIES</b>	<u>178,997</u>	<u>55,064</u>	<u>50,087</u>	<u>5,818</u>	<u>289,966</u>
<b>NET POSITION</b>	<u>135,380</u>	<u>(42,436)</u>	<u>(47,992)</u>	<u>(5,745)</u>	

	Belarus	CIS	OECD countries	Other countries	31 December 2004 (restated) Total
<b>ASSETS</b>					
Cash and balances with the National Bank	29,739	-	-	-	29,739
Loans and advances to banks, less allowance for impairment losses	28,846	2,301	2,668	55	33,870
Securities held at fair value through profit of loss	21,137	-	-	-	21,137
Loans to customers, less allowance for impairment losses	118,860	-	-	-	118,860
Tangible and intangible assets, less accumulated depreciation	19,443	-	-	-	19,443
Income tax assets	1,021	-	-	-	1,021
Other assets, less allowance for losses	3,665	-	-	-	3,665
<b>TOTAL ASSETS</b>	<u>222,711</u>	<u>2,301</u>	<u>2,668</u>	<u>55</u>	<u>227,735</u>
<b>LIABILITIES</b>					
Loans and advances from banks	22,395	24,526	3,581	2,325	52,827
Customer accounts	119,206	1,001	-	-	120,207
Debt securities issued	197	-	-	-	197
Deferred tax liabilities	964	-	-	-	964
Subordinated debt	-	11,759	-	-	11,759
Other liabilities	1,715	-	-	-	1,715
<b>TOTAL LIABILITIES</b>	<u>144,477</u>	<u>37,286</u>	<u>3,581</u>	<u>2,325</u>	<u>187,669</u>
<b>NET POSITION</b>	<u>78,234</u>	<u>(34,985)</u>	<u>(913)</u>	<u>(2,270)</u>	

## 26. ECONOMIC UNCERTANTIES

***Economy of the Republic of Belarus*** - Currently the economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. In recent years inflation has significantly decreased, however, still it is assessed to be on a higher level. Laws and regulations defining the business environment in the Republic of Belarus are at the stage of development and subject to frequent changes. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of Belarus and other actions beyond the Bank's control. The recoverability of the Bank's assets and the ability of the Bank to maintain or pay its debts as they mature, as well as the future operations of the Bank are heavily dependent on future direction of the economic policy of the Government of the Republic of Belarus.

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

***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.