

**Joint Stock Company “Belgazprombank”
Consolidated Financial Statements**

Year ended 31 December 2007

Together with Independent Auditors’ Report

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INDEPENDENT AUDITORS' REPORT

To the Board and Shareholders of JSC "Belgazprombank"

We have audited the accompanying consolidated financial statements of JSC "Belgazprombank" and its subsidiary (together the "Bank"), which comprise the consolidated balance sheet as of 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

21 April 2008

CONSOLIDATED BALANCE SHEET

As of 31 December 2007

(Millions of Belarusian roubles)

	<i>Notes</i>	<i>2007</i>	<i>2006</i>
Assets			
Cash and cash equivalents	5	106,935	80,114
Trading securities	6	123,416	44,154
Trading securities pledged under repurchase agreements	7	12,734	15,002
Amounts due from the National Bank of the Republic of Belarus	8	14,313	10,496
Amounts due from credit institutions	9	2,917	2,054
Loans to customers	10	647,537	324,815
Investment securities	11	555	753
Property and equipment	14	26,293	21,466
Intangible assets	15	1,032	987
Other assets	16	6,831	6,841
Total assets		942,563	506,682
Liabilities			
Amounts due to the National Bank of the Republic of Belarus	17	20,232	22,885
Amounts due to credit institutions	18	330,004	177,989
Amounts due to customers	19	441,971	202,489
Amounts due to international financial institutions	20	42,038	31,083
Debt securities issued	21	1	110
Income tax liabilities	12	2,644	1,847
Other liabilities	16	4,018	1,521
		840,908	437,924
Subordinated debt	22	10,750	21,448
Total liabilities		851,658	459,372
Equity			
Share capital	23	65,766	34,124
Retained earnings		25,139	13,186
Total equity		90,905	47,310
Total equity and liabilities		942,563	506,682

Signed and authorised for release on behalf of the Board of the Bank

V. D. Babariko

Chairman of the Board

A. M. Yakusheva

Deputy Chief Accountant

21 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

(Millions of Belarusian roubles)

	<i>Notes</i>	<i>2007</i>	<i>2006</i>
Interest income			
Loans to customers		73,167	41,565
Securities		7,485	5,042
Amounts due from credit institutions		3,584	1,819
Other		41	81
		<u>84,277</u>	<u>48,507</u>
Interest expense			
Amounts due to credit institutions		(29,843)	(18,223)
Amounts due to customers		(16,390)	(6,252)
Debt securities issued		(3)	(123)
Other		-	(19)
		<u>(46,236)</u>	<u>(24,617)</u>
Net interest income		38,041	23,890
Allowance for loan impairment		(6,250)	(3,399)
Net interest income after allowance for loan impairment		31,791	20,491
Net fee and commission income	25	14,798	11,233
Gains less losses from trading securities		982	272
Gains less losses from foreign currencies:			
- dealing		13,278	7,058
- translation differences		336	1,376
Other income		862	1,602
		<u>15,458</u>	<u>10,308</u>
Non interest income		15,458	10,308
Personnel expenses	26	(23,790)	(16,397)
Depreciation and amortisation	14,15	(2,060)	(1,704)
Other operating expenses	26	(12,927)	(8,175)
Other impairment and provisions	13	(586)	(38)
Taxes other than income tax		(2,289)	(2,296)
		<u>(41,652)</u>	<u>(28,610)</u>
Non interest expenses		(41,652)	(28,610)
Profit before income tax expense		20,395	13,422
Income tax expense	12	(5,622)	(2,979)
Profit for the year		14,773	10,443

The accompanying notes on pages 5 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

(Millions of Belarusian roubles)

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
31 December 2005	34,124	3,704	37,828
Net gains on investment securities available-for-sale	-	83	83
Total income and expense for the year recognised directly in equity	-	83	83
Profit for the year	-	10,443	10,443
Total income for the year	-	10,526	10,526
Dividends paid	-	(1,044)	(1,044)
31 December 2006	34,124	13,186	47,310
Net gains on investment securities available-for-sale	-	(5)	(5)
Total income and expense for the year recognised directly in equity	-	(5)	(5)
Profit for the year	-	14,773	14,773
Total income for the year	-	14,768	14,768
Issue of share capital	31,642	-	31,642
Dividends paid	-	(2,815)	(2,815)
31 December 2007	65,766	25,139	90,905

The accompanying notes on pages 5 to 43 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

(Millions of Belarusian roubles)

	Notes	2007	2006
Cash flows from operating activities			
Net profit for the year		14,773	10,443
Adjustments for:			
Depreciation and amortisation		2,060	1,704
Provision for impairment		6,836	3,437
Fair value re-measurement		(181)	(4)
Personnel expenses		8	-
Deferred income tax expense		396	445
Net gain from disposal of property and equipment and intangible assets		(2,910)	(173)
Cash flow from operating activities before changes in operating assets and liabilities		20,982	15,852
<i>Net (increase)/ decrease in operating assets</i>			
Trading securities		(76,994)	(4,665)
Amounts due from National Bank of the Republic of Belarus		(3,817)	(2,446)
Amounts due from credit institutions		(863)	(2,000)
Loans to customers		(321,253)	(125,630)
Other assets		(388)	(1,391)
<i>Net increase / (decrease) in operating liabilities</i>			
Amounts due to National Bank of the Republic of Belarus		(2,753)	6,219
Amounts due to credit institutions		146,820	84,417
Amounts due to customers		235,747	68,469
Other liabilities		2,891	410
Net cash flow provided by (used in) operating activities		372	39,235
Cash flows from investing activities			
Purchases of fixed and intangible assets		(7,140)	(5,928)
Securities available-for-sale		225	(471)
Proceeds from sale of property and equipment		3,110	349
Net cash flow used in investing activities		(3,805)	(6,050)
Cash flows from financing activities			
Redemption of subordinated debt		(10,648)	-
Amounts due to international financial institutions		10,955	11,463
Issue of share capital		31,642	-
Redemption of bonds issued		(109)	(5,046)
Dividends paid		(2,815)	(1,044)
Net cash flow provided by (used in) financing activities		29,025	5,373
Effect of exchange rate changes and monetary losses on cash and cash equivalents		1,229	610
Change in cash and cash equivalents		26,821	39,168
Cash and cash equivalents at 1 January	5	80,114	40,946
Cash and cash equivalents at 31 December	5	106,935	80,114
Supplemental information:			
Income tax paid		4,825	2,113
Interest paid		43,967	11,721
Interest received		74,205	24,767

The accompanying notes on pages 5 to 43 are an integral part of these consolidated financial statements.

(Millions of Belarusian roubles unless otherwise indicated)

1. Principal activities

Joint Stock Company “Belgazprombank” (the “Bank”), originally named “Ekorazvitie Bank”, was founded in 1990 as a Joint Stock Company under the laws of the Republic of Belarus; in March 1994 the name was changed to “Olimp Bank”. In 1996, JSC “Gazprom” (Russia) and Joint Stock Company “Gazprombank”, Russia (“GPB” JSC) 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 2007, the following shareholders owned more than 5% of the outstanding shares:

Shareholder	2007 %	2006 %
JSC “Gazprom”	42.73	33.91
“Gazprombank” (Joint Stock Company)	42.73	33.91
JSC “Beltransgaz”	10.62	23.50
Ministry of Economy of the Republic of Belarus	3.90	8.63
Other	0.02	0.05
Total	100.00	100.00

The Bank is ultimately controlled by JSC “Gazprom”

These consolidated financial statements comprise JSC “Belgazprombank” and its subsidiary BGPB Depository (together referred to as the “Bank”). The details of the subsidiary are disclosed in Note 30.

The Bank operates under a general banking licence #8 issued by the National Bank of the Republic of Belarus (“NBRB”) on 27 October 2006.

The Bank accepts deposits from the public and extends loans, transfers payments in Belarus and abroad, exchanges currencies and provides banking services to corporate and retail customers. Its head office is situated in Minsk. The Bank has 7 branches and more than 36 divisions in Belarus. The Bank’s registered legal address is 60/2 Pritytskogo Str., Minsk, Republic of Belarus.

2. Basis of preparation

General

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

The Bank is required to maintain its books of account in Belarusian roubles and prepare financial statements in accordance with Belarusian Accounting Standards (“BAS”). The consolidated financial statements are based on the books and records of the Bank as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities are measured at fair value.

These consolidated financial statements are presented in millions of Belarusian roubles (“BYR”), unless otherwise indicated.

Inflation accounting

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

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of accounting policies

Subsidiaries

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

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Bank's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated income statement.

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets at fair value through profit or loss are recognised in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of accounting policies (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRB, excluding part of obligatory reserves which is restricted in use, and due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated balance sheet and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated balance sheet. Securities borrowed are not recorded in the consolidated balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated income statement. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments (including futures, forwards and swaps) in the foreign exchange and capital market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of accounting policies (continued)

is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value being recognised in the consolidated income statement.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the NBRB, amounts due to credit institutions, amounts due to customers, debt securities issued. After initial recognition, borrowings are subsequently measured at

amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the consolidated income statement.

Leases

i. Finance – Bank as lessor

The Bank recognises lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. The Bank presents leased assets as loans to customers. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other administrative expenses.

iii. Operating – Bank as lessor

The Bank presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of accounting policies (continued)

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

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

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

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

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of accounting policies (continued)

Renegotiated loans

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight-line basis over the life of the guarantee.

Taxation

Current income tax expense is calculated in accordance with the regulations of Belarus and is based on the results reported in the statement of income of the Bank prepared under BAS after adjustments for tax purposes.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of accounting policies (continued)

Deferred income tax is provided on temporary differences arising on investments, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Belarus also has various operating taxes, which are assessed on the Bank’s activities. These taxes are presented separately in the consolidated statement of income.

Property and equipment

Property and equipment are carried at the cost, excluding the costs of day to day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met.

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

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

	<u>Years</u>
Buildings	100
Motor vehicles	7
Computers and office equipment	5-10
Furniture and fixtures	10

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

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

Intangible assets

Intangible assets include computer software and licenses.

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

Provisions

Provisions are recognised 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 amount of obligation can be made.

Retirement and other benefit obligations

The Bank participates in the State pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

Share capital

Share capital

Ordinary and preference shares are classified as share capital. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of accounting policies (continued)

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- Fee income from providing transaction services

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

Foreign currency translation

The consolidated financial statements are presented in Belarusian roubles, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of

(Millions of Belarusian roubles unless otherwise indicated)

3. Summary of accounting policies (continued)

historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official NBRB exchange rates at 31 December 2007 and 2006 were 2,150 and 2,140 Belarusian roubles to 1 US dollar, respectively. The official NBRB rate as of 21 April 2008 was 2,143 Belarusian roubles to 1 US dollar.

Changes in accounting policies

The Bank has adopted the following new and amended IFRS during the year. Adoption of these standards did not have any effect on the financial performance or position of the Bank. The principal effects of these changes are as follows:

IFRS 7 “Financial Instruments: Disclosures”

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Bank’s financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

Amendment to IAS 1 “Presentation of Financial Statements”

This amendment requires the Bank to make new disclosures to enable users of the financial statements to evaluate the Bank’s objectives, policies and processes for managing capital. These new disclosures are shown in Note 31.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 2 “Share-based Payments – Vesting Conditions and Cancellations”

The amendment to IFRS 2 “Share-based payments” was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Bank has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

IFRS 3R “Business Combinations” and IAS 27R “Consolidated and Separate Financial Statements”

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

IAS 1 Revised “Presentation of Financial Statements”

The revised IAS 1 “Presentation of Financial Statements” was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and

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3. Summary of accounting policies (continued)

expense, either in one single statement or in two linked statements. The Bank is still evaluating whether it will have one or two statements.

Amendments to IAS 32 and IAS 1 “Puttable Financial Instruments”

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Bank does not expect these amendments to impact financial statements of the Bank.

IAS 23 “Borrowing Costs”

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 “Service Concession Arrangements”

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This Interpretation will have no impact on the Bank.

IFRIC 13 “Customer Loyalty Programmes”

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no impact on the Bank's financial statements as no such schemes currently exist.

IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Bank expects that this Interpretation will have no impact on the financial position or performance of the Bank.

4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Allowance for loans impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgement to adjust observable data for a group of

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4. Significant accounting judgements and estimates (continued)

loans or receivables to reflect current circumstances. The Management of the Bank believes that it has made a sufficiently conservative assessment of loans and receivables at year end and the carrying value of loans to customers recognised in the consolidated financial statements approximates their fair value.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2007</u>	<u>2006</u>
Cash on hand	22,770	13,141
Current accounts with the National Bank of the Republic of Belarus	17,489	14,528
Current accounts with other credit institutions	28,026	28,600
Time deposits with the National Bank of the Republic of Belarus up to 90 days	-	5,500
Time deposits with credit institutions up to 90 days	38,650	18,345
Cash and cash equivalents	<u>106,935</u>	<u>80,114</u>

As of 31 December 2007, BYR 3,296 million (2006 – BYR 17,186 million) was placed in current accounts with eight (2006 - six) internationally recognised OECD banks, who are the main counterparties of the Bank in performing international settlements.

6. Trading securities

Trading securities comprise:

	<u>2007</u>	<u>2006</u>
Belarusian Government securities (GKO and GDOs)	48,623	41,621
Short-term securities of Russian banks	755	-
US Treasury bonds	63,332	-
Belarusian banks bonds	8,235	-
Listed Russian equity securities	2,471	2,533
Trading securities	<u>123,416</u>	<u>44,154</u>

7. Trading securities pledged under repurchase agreements

As of 31 December 2007 and 2006 trading securities pledged under repurchase agreements were represented by short-term bonds of the Ministry of Finance of the Republic of Belarus (GKO).

8. Amounts due from the National Bank of the Republic of Belarus

As of 31 December 2007 and 2006, amounts due from the National Bank of the Republic of Belarus were represented by obligatory reserve with the National Bank of the Republic of Belarus.

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted by the credit institution. The Bank's ability to withdraw this deposit is significantly restricted by statutory legislation.

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9. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2007</u>	<u>2006</u>
Time deposits with Belarusian banks	1,600	2,000
Deposits pledged as collateral under letters of credit with OECD banks	692	54
Deposits pledged as collateral under letters of credit with Russian banks	625	-
Amounts due from credit institutions	<u>2,917</u>	<u>2,054</u>

10. Loans to customers

Loans to customers comprise:

	<u>2007</u>	<u>2006</u>
Corporate lending	347,399	184,411
Small business lending	60,965	36,409
Leasing	36,350	31,581
Factoring "Delay"	44,561	16,092
Plastic cards	20,878	1,554
Other loans to individuals	150,394	63,246
Gross loans to customers	<u>660,547</u>	<u>333,293</u>
Less – Allowance for loan impairment	<u>(13,010)</u>	<u>(8,478)</u>
Loans to customers	<u>647,537</u>	<u>324,815</u>

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<i>Corporate lending 2007</i>	<i>Small business lending 2007</i>	<i>Leasing 2007</i>	<i>Factoring "Delay" 2007</i>	<i>Plastic cards 2007</i>	<i>Other loans to individuals 2007</i>	<i>Total 2007</i>
At 1 January 2007	8,096	36	250	66	-	30	8,478
Charge for the year	33,976	51	96	296	4	139	34,562
Recoveries	(28,312)	-	-	-	-	-	(28,312)
Amounts written off	(1,699)	(1)	-	(6)	-	(12)	(1,718)
Interest accrued on impaired loans	5,140	760	53	-	32	1,743	7,728
At 31 December 2007	<u>12,061</u>	<u>86</u>	<u>346</u>	<u>356</u>	<u>4</u>	<u>157</u>	<u>13,010</u>
Individual impairment	8,118	-	233	-	-	-	8,351
Collective impairment	3,943	86	113	356	4	157	4,659
	<u>12,061</u>	<u>86</u>	<u>346</u>	<u>356</u>	<u>4</u>	<u>157</u>	<u>13,010</u>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>45,978</u>	<u>-</u>	<u>1,213</u>	<u>352</u>	<u>-</u>	<u>125</u>	<u>47,668</u>

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10. Loans to customers (continued)

	<i>Corporate lending 2006</i>	<i>Small business lending 2006</i>	<i>Leasing 2006</i>	<i>Factoring "Delay" 2006</i>	<i>Plastic cards 2006</i>	<i>Other loans to individuals 2006</i>	<i>Total 2006</i>
At 1 January 2006	4,850	-	236	39	-	4	5,129
Charge for the year	3,259	36	51	27	-	26	3,399
Recoveries	-	-	-	-	-	-	-
Amounts written off	(13)	-	(37)	-	-	-	(50)
Interest accrued on impaired loans	2,065	305	115	-	18	678	3,181
At 31 December 2006	8,096	36	250	66	-	30	8,478
Individual impairment	6,299	-	175	-	-	-	6,474
Collective impairment	1,797	36	75	66	-	30	2,004
	8,096	36	250	66	-	30	8,478
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	49 064	-	7 221	-	-	87	56 372

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, as of 31 December 2007, comprised BYR 1,299 (2006 – BYR 1,293).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2007 amounts to BYR 141,150 (2006 – BYR 187,162). In accordance with Belarusian legislation, loans may only be written off one year after recognition of the debt as uncollectible and creation of an allowance for impairment in the amount of 100%, and in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions – securities, mainly bonds of the Ministry of Finance of the Republic of Belarus;
- For inter-bank loans – state securities issued;
- For commercial lending - charges over real estate properties, inventory and trade receivables,
- For retail lending - mortgages over residential properties and guarantees of third parties.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As of 31 December 2007, the Bank had a concentration of loans represented by BYR 135,735 due from the ten largest third party entities (21% of gross loan portfolio) (2006 - BYR 75,260 or 23%). An allowance of BYR 6,051 (2006 – BYR 5,233) was recognised against these loans.

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10. Loans to customers (continued)

Loans have been extended to the following types of customers:

	<u>2007</u>	<u>2006</u>
Private companies	411,878	250,170
State companies, budget or local authorities	1,008	6,925
Individuals	246,332	75,764
Employees	1,329	434
	<u>660,547</u>	<u>333,293</u>

Loans are made principally within Belarus in the following industry sectors:

	<u>2007</u>	<u>2006</u>
Trading enterprises	200,610	103,096
Manufacturing	145,627	86,304
Individuals	194,057	76,198
Construction	29,160	19,888
Lease companies	225	10,474
Transport	1,910	9,873
Agriculture	418	512
Telecommunication and information services	2,970	181
Real estate	611	281
Utilities	42	183
Other	84,917	26,303
	<u>660,547</u>	<u>333,293</u>

The finance lease receivables may be analysed as follows:

	<u>2007</u>	<u>2006</u>
Not later than 1 year	19,524	14,997
Later than 1 year and not later than 5 years	27,319	27,669
Later than 5 years	8	-
Gross finance lease receivables:	<u>46,851</u>	<u>42,666</u>
Unearned future finance income on finance leases	<u>(10,501)</u>	<u>(11,740)</u>
Net investment in finance leases	<u>36,350</u>	<u>30,926</u>

11. Investment securities

Available for sale securities comprise the following:

	<u>2007</u>	<u>2006</u>
Mutual funds	486	537
Unquoted equity instruments	69	216
Available for sale securities	<u>555</u>	<u>753</u>

As of 31 December 2007 and 2006, mutual funds were represented by funds placed with one Russian investment company.

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12. Taxation

The income tax expense comprises:

	<u>2007</u>	<u>2006</u>
Current tax charge	5,226	2,534
Deferred tax expense	396	445
Income tax expense	<u>5,622</u>	<u>2,979</u>

Belarusian legal entities must file individual tax declarations. In 2007 and 2006, the income tax rate for banks (except for gains from transactions with state securities) was 26.82%.

Tax liabilities consist of the following:

	<u>2007</u>	<u>2006</u>
Current tax liabilities	1,346	945
Deferred tax liabilities	1,297	902
Tax liabilities	<u>2,643</u>	<u>1,847</u>

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2007</u>	<u>2006</u>
Income before tax	20,395	13,422
Statutory tax rate	26.28%	26.28%
Theoretical income tax expense at the statutory rate	5,360	3,527
Capital expenditure tax exemption	(3,788)	(3,930)
State securities non-taxable income	(858)	(3,151)
Other tax exemptions and credits	(24)	-
Non deductible expenditures:		
- salaries and related expenses	4,187	3,956
- taxes other than income tax	121	248
- depreciation and amortisation	11	-
- cost of resources for operations with state securities		969
- other	1,332	588
Effect of changes in interest rates	-	(30)
Other permanent differences	(719)	802
Income tax expense	<u>5,622</u>	<u>2,979</u>

Deferred tax assets and liabilities as of 31 December comprise:

	<u>2007</u>	<u>2006</u>
Tax effect of deductible temporary differences		
Allowance for loans to customers	1,331	1,403
Fair value of derivative financial instruments	138	-
Other liabilities (provisions)	477	339
Deferred tax asset	<u>391</u>	<u>-</u>
	<u>2,337</u>	<u>1,742</u>
Tax effect of taxable temporary differences		
Property and equipment	486	948
Fair value of derivative financial instruments	48	-
Accrued interest income	3,033	1,323
Other assets	67	373
Deferred tax liability	<u>3,634</u>	<u>2,644</u>
	<u>(1,297)</u>	<u>(902)</u>
Deferred tax liability, net	<u>(1,297)</u>	<u>(902)</u>

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13. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	<i>Other assets</i>	<i>Guarantees and commitments</i>	<i>Total</i>
31 December 2005	36	-	36
Charge	38	-	38
31 December 2006	74	-	74
Charge (reversal)	(18)	604	586
31 December 2007	56	604	660

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for guarantees and commitments are recorded in liabilities.

14. Property and equipment

The movement of property and equipment during 2007 was as follows:

	<i>Buildings</i>	<i>Computers, office equipment and other fixed assets</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
Cost					
31 December 2006	15,879	10,102	2,111	1,270	29,362
Additions	2,077	2,109	1,010	1,416	6,612
Disposals	(7)	(521)	(501)	(14)	(1,043)
Transfer	1,580	433	-	(2,013)	-
31 December 2007	19,529	12,123	2,620	659	34,931
Accumulated depreciation					
31 December 2006	(1,532)	(5,424)	(940)		(7,896)
Charge	(305)	(929)	(351)		(1,585)
Disposals	5	465	373		843
31 December 2007	(1,832)	(5,888)	(918)		(8,638)
Net book value:					
31 December 2006	14,347	4,678	1,171	1,270	21,466
31 December 2007	17,697	6,235	1,702	659	26,293

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14. Property and equipment (continued)

The movement of property and equipment during 2006 was as follows:

	<i>Buildings</i>	<i>Computers, office equipment and other fixed assets</i>	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Total</i>
Cost					
31 December 2005	13,308	9,184	1,614	595	24,701
Additions	2,356	1,215	512	1,042	5,125
Disposals	(11)	(438)	(15)	-	(464)
Transfer	226	141	-	(367)	-
31 December 2006	15,879	10,102	2,111	1,270	29,362
Accumulated depreciation					
31 December 2005	(1,291)	(4,677)	(694)		(6,662)
Charge	(243)	(1,032)	(257)		(1,532)
Disposals	2	285	11		298
31 December 2006	(1,532)	(5,424)	(940)		(7,896)
Net book value:					
31 December 2005	12,017	4,507	920	595	18,039
31 December 2006	14,347	4,678	1,171	1,270	21,466

For the year ended 31 December 2007, the depreciation charge includes expenses of BYR 8 million relating to depreciation of the social services related asset, which was included in 'Salary and other personnel expenses'.

15. Intangible assets

The movements of intangible assets during 2007 were as follows:

	<i>Licences</i>	<i>Software</i>	<i>Total</i>
Cost			
31 December 2006	676	550	1,226
Additions	-	528	528
Disposals	(12)	-	(12)
31 December 2007	664	1,078	1,742
Accumulated amortisation			
31 December 2006	(133)	(106)	(239)
Charge	(107)	(376)	(483)
Disposals	12	-	12
31 December 2007	(228)	(482)	(710)
Net book value:			
31 December 2006	543	444	987
31 December 2007	436	596	1,032

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15. Intangible assets (continued)

The movements of intangible assets during 2006 were as follows:

	<i>Licences</i>	<i>Software</i>	<i>Total</i>
Cost			
31 December 2005	261	188	449
Additions	415	388	803
Disposals	-	(26)	(26)
31 December 2006	676	550	1,226
Accumulated amortisation			
31 December 2005	(19)	(64)	(83)
Charge	(114)	(58)	(172)
Disposals	-	16	16
31 December 2006	(133)	(106)	(239)
Net book value:			
31 December 2005	242	124	366
31 December 2006	543	444	987

16. Other assets and liabilities

Other assets comprise:

	<i>2007</i>	<i>2006</i>
Taxes prepaid other than income taxes	2,773	3,402
Prepaid expenses	224	989
Other debtors	1,431	792
Property and other assets held for disposal	4	703
Tangible assets purchased for leasing to clients	1,276	299
Precious metals	553	168
Assets arising from fair value recognition of derivatives	181	31
Investment in subsidiary	26	26
Other	419	505
Other assets	6,887	6,915
Allowance for impairment (Note 13)	(56)	(74)
Total	6,831	6,841

Investment in subsidiary has been recorded at cost. Management believes this amount adequately reflects, in all material terms, the carrying value of net assets of the subsidiary at year-end for the purposes of inclusion in these consolidated financial statements.

Other liabilities comprise:

	<i>2007</i>	<i>2006</i>
Payables for tangible assets	1,209	679
Accrual for unused vacations	1,294	296
Advances received	96	239
Accrued expenses	121	53
Liability arising from fair value recognition of derivatives	472	27
Fair value of financial guarantees	604	-
Other	222	227
Other liabilities	4,018	1,521

(Millions of Belarusian roubles unless otherwise indicated)

17. Amounts due to the National Bank of the Republic of Belarus

As of 31 December 2007, amounts due to the National Bank of the Republic of Belarus were BYR 20,232 (2006 – BYR 22,885) and were received under a loan facility agreement (the “Agreement”), which was entered into in April 1995. The loan agreement with the NBRB is denominated in US dollars and as of 31 December 2007 amounted to USD 9,248,935 (2006 – USD 10,693,925). The European Bank for Reconstruction and Development (“EBRD”) originally provided the funds to the Republic of Belarus. The Bank and the EBRD have the option to withdraw from the facility and repay all amounts outstanding at the end of each year of the Agreement.

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2007</u>	<u>2006</u>
Current accounts	76,206	18,640
Syndicated loan from banks (Syndicate 1)	-	47,237
Syndicated loan from banks (Syndicate 2)	27,650	43,592
Syndicated loan from banks (Syndicate 3)	63,127	-
Syndicated loan from banks (Syndicate 4)	70,572	
Time deposits and loans	82,193	67,476
Repurchase agreements	10,256	1,044
Amounts due to credit institutions	<u>330,004</u>	<u>177,989</u>

Syndicate 1 was signed in November 2005 with four OECD banks, one CIS bank and one non-OECD European bank. The facility was arranged by a CIS bank. The facility was signed for USD 15,000,000 allowing dual-currency disbursement in US dollars and euro for 1 year, with a 1 year extension option. In November 2006, the facility was extended for 1 year, with an increased principal amount (EUR 11,500,000 and USD 7,000,000) and lower interest rates. On 8 November 2007, the loan was fully repaid.

Syndicate 2 was signed in September 2006 for USD 14,000,000 and EUR 5,000,000 for 1 year with a 1 year extension option. The mandated lead arrangers are an OECD bank and two CIS banks, the facility agent is an OECD bank. The original maturity of the facility was 13 September 2007. In 2007, the loan was partly extended for 1 year for the amounts of USD 7,000,000 and EUR 4,000,000. The maturity date is 11 September 2008.

Syndicate 3 was signed in June 2007 for USD 35,000,000 for 1 year with a 1 year extension option. The loan was received in two tranches: 29 June 2007 – USD 23,000,000, 26 July 2007 – USD 12,000,000. The credit agent for the loan is an OECD bank. The maturity date is 18 June 2008.

Syndicate 4 was signed in November 2007 for USD 35,000,000 for 1 year with a 1 year extension option. The credit agent for the loan is an OECD bank. The maturity date is 21 November 2008.

Syndicate 3 and Syndicate 4 also include amounts received from foreign non-banking financial organisations of USD 5.5 million and USD 2 million, respectively. For the purpose of these consolidated financial statements, these amounts are classified as amounts due to international non-banking financial organisations (Note 19).

As of 31 December 2007, the Bank had a concentration of time deposits and loans due to credit institutions represented by BYR 65,285 (2006 – BYR 48,059) due to three credit institutions (79% of all time deposits and loans due to credit institutions (2006 – 72%)). One of these credit institutions is related party to the Bank – BYR 25,800 (2006 - BYR 25,680).

As of 31 December 2007, repurchase agreements amounting to BYR 10,256 (2006 – BYR 1,044) with a maturity of one month were secured by short term Government bonds (2006 – secured by short term Government bonds).

(Millions of Belarusian roubles unless otherwise indicated)

19. Amounts due to customers

Amounts due to customers include the following:

	<u>2007</u>	<u>2006</u>
Current accounts	145,781	115,082
Time deposits	256,845	87,407
Due to international non-banking financial organisations	39,345	-
Amounts due to customers	<u>441,971</u>	<u>202,489</u>
Held as security against letters of credit	16,474	2,131
Held as security against guarantees	6,144	448

Amounts due to customers include accounts with the following types of customers:

	<u>2007</u>	<u>2006</u>
Private enterprises	297,270	141,365
Individuals	143,202	60,629
State and budgetary organisations	439	320
Employees	1,060	175
Amounts due to customers	<u>441,971</u>	<u>202,489</u>

An analysis of customer accounts by sector follows:

	<u>2007</u>	<u>2006</u>
Individuals	143,202	60,629
General commercial activity	88,555	19,451
Trade and public catering	69,807	48,701
Industry	56,144	30,749
International financial organisations	39,345	-
Insurance	12,379	14,023
Construction	16,035	8,730
Motor transport and road facilities	8,640	3,639
Other	7,864	16,567
Amounts due to customers	<u>441,971</u>	<u>202,489</u>

20. Amounts due to international financial institutions

	<u>2007</u>	<u>2006</u>
Loan received under EBRD credit lines	32,141	20,039
Loan received under IFC credit line	9,897	11,044
Amounts due to international financial institutions	<u>42,038</u>	<u>31,083</u>

IFC

In June 2005, the Bank concluded a loan agreement with IFC for USD 5 million to finance eligible small and medium sized enterprises. The loan is available in two tranches: "A" for USD 3 million and "B" stand-by tranche for USD 2 million. The "B" stand-by tranche is available only after tranche "A" has been disbursed in full. Principal is due in 6 semi-annual approximately equal instalments beginning in August 2007. Interest payments are due on 15 February and 15 August each year. The Bank is obligated to maintain certain financial ratios and it has certain restrictions with respect to payment of dividends, allowing liens on or disposing of assets.

EBRD

In September 2007, the Bank concluded a new loan agreement with the EBRD for a credit line of USD 5 million. The purpose of this credit line is to provide finance for SME and MSE businesses. Interest payments are due on 24 April and 24 September in each year.

(Millions of Belarusian roubles unless otherwise indicated)

20. Amounts due to international financial institutions (continued)

In December 2005, the Bank concluded a loan agreement with the EBRD for a credit line of USD 4 million, which consists of two loans: "A" and "B" loans – each of USD 2 million. The purpose of these loans is to provide finance for SME and MSE business respectively. In March 2007, the Bank took a new tranche for USD 1 million loan "A". As of 31 December 2006, the Bank had borrowed USD 1 million under loan "A" and USD 2 million under loan "B". The loan is due to be repaid in 7 equal semi-annual instalments commencing January 2008. The loan is available for draw down over a period of two years ending in December 2007. Interest payments are due on 12 January and 12 July in each year. The Bank is obliged to maintain certain financial ratios and it has certain restrictions with respect to payment of dividends, allowing liens on or disposing of assets.

In December 2004, the Bank signed a loan agreement with the EBRD for USD 6 million consisting of "A" and "B" loans – neither loan to exceed USD 3 million. These funds are to be used to make sub-loans to eligible SME and MSE borrowers respectively. The loan has to be repaid in four equal instalments semi-annually commencing January 2008. Interest is due semi-annually on 12 January and 12 July. As of 31 December 2006, the Bank had drawn down the total of USD 6 million. The Bank is obliged to maintain certain financial ratios and has certain restrictions with respect to dividend payments, allowing liens on or disposing of assets.

21. Debt securities issued

As of 31 December 2007 and 2006, debt securities issued were presented by the Bank's non-interest-bearing short-term promissory notes.

22. Subordinated debt

	<i>Maturity date</i>	<i>Interest rate</i>	<i>2007</i>	<i>2006</i>
Subordinated loan from "GPB" (JSC) (Russia)	2011	LIBOR+6%	-	10,748
Subordinated loan from "GPB" (JSC) (Russia)	2012	LIBOR+6%	<u>10,750</u>	<u>10,700</u>
Total subordinated debt			<u>10,750</u>	<u>21,448</u>

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

The subordinated loan was received in December 2004 in US dollars and represents the Belarusian rouble equivalent of USD 5 million maturing in December 2011. The loan bears interest rate at 12-month US dollar LIBOR plus 6% per annum. An additional amount of USD 5 million was received in March 2005 with maturity in 2012.

In October 2007, the Bank repaid subordinated debt of USD 5 million as "GPB" (JSC) was required to make a contribution to the share capital of the Bank. The contribution to the Bank's share capital was made by "GPB" (JSC) the day after the repayment of the subordinated debt.

23. Equity

The total amount of authorised ordinary and preference shares is 57,458,799,649 (2006 - 25,816,955,136) and 260,044,863 (2006 - 260,044,863), respectively. The par value of both ordinary and preference shares is BYR 1 per share. All authorised shares were issued and fully paid.

All ordinary shares rank equally and carry one vote and equal dividend rights.

The shareholders are entitled to draw dividends and to participate in distribution of equity in Belarusian roubles.

(Millions of Belarusian roubles unless otherwise indicated)

20. Equity (continued)

The movement of shares authorised, fully paid and outstanding follows:

	<i>Number of shares</i>		<i>Nominal amount</i>		<i>Total</i>
	<i>Preferred</i>	<i>Common</i>	<i>Preferred</i>	<i>Common</i>	
31 December 2005	260,044,863	25,816,955,136	260	25,817	34,124
31 December 2006	260,044,863	25,816,955,136	260	25,817	34,124
Issue of shares	-	31,641,844,513	-	31,642	31,642
31 December 2007	260,044,863	57,458,799,649	-	57,459	65,766

24. Commitments and contingencies

Operating environment

As an emerging market, Belarus does not possess the well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. Whilst there have been improvements in the Belarusian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Belarus continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Belarusian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

As a result, operations in Belarus involve risks that are not typically associated with those in developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, onerous currency controls and low liquidity levels for debt and equity markets.

The Bank could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Bank's assets, and the ability of the Bank to maintain or pay its debts as they mature.

The accompanying financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank's financial statements in the period when they become known and estimable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Belarusian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Bank has complied with all regulations and paid or accrued all taxes and withholding taxes that are applicable.

At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems. Although this risk diminishes with the passage of time. It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavourable outcome. As of

31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax and currency positions will be sustained.

(Millions of Belarusian roubles unless otherwise indicated)

24. Commitments and contingencies (continued)

Financial commitments and contingencies

As of 31 December, the Bank’s financial commitments and contingencies comprised the following:

	2007	2006
Credit related commitments		
Undrawn loan commitments	73,074	36,607
Guarantees	15,788	18,739
Letters of credit	16,719	3,407
	<u>105,581</u>	<u>58,753</u>
Lease commitments		
Not later than 1 year	1,093	450
Later than 1 year but not later than 5 years	605	1,155
Over 5 years	-	227
	<u>1,698</u>	<u>1,832</u>
	<u>107,279</u>	<u>60,585</u>
Less - Provisions	(604)	-
Financial commitments and contingencies (before deducting collateral)	<u>106,675</u>	<u>60,585</u>
Less – Cash held as security against letters of credit and guarantees	(22,618)	(2,579)
Financial commitments and contingencies	<u>84,057</u>	<u>58,006</u>

Insurance

As of 31 December 2007 and 2006, the Bank’s premises and cars were insured for BYR 2,974 and BYR 1,047, respectively.

Derivatives

	2007			2006		
	<i>Notional principal</i>	<i>Fair values</i>		<i>Notional principal</i>	<i>Fair value</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Interest rate contracts (non-deliverable forwards)						
Forwards on Eurobonds – with foreign banks	6,089	-	(87)	5,521	3	-
	<u>6,089</u>	<u>-</u>	<u>(87)</u>	<u>5,521</u>	<u>3</u>	<u>-</u>
Foreign exchange contracts (non-deliverable forwards)						
USD - BYR contracts – with foreign banks	4,300	-	(29)	8,131	-	(19)
USD - BYR contracts – with domestic banks	6,880	-	(13)	2,140	-	-
GBP - USD contracts – with foreign banks	-	-	-	4,198	10	-
GBP - USD contracts – with foreign banks	-	-	-	2,099	-	(4)
GBP - EUR contracts - with foreign banks	627	-	(6)	-	-	-
USD - GPB contracts – with foreign banks	-	-	-	6,312	16	-
USD - EUR contracts – with foreign banks	4,067	-	(49)	1,411	1	-
USD - RUR contracts – with foreign banks	18,275	-	(5)	642	1	-
EUR - USD contracts – with foreign banks	15,992	94	-	15,495	-	(4)
EUR - USD contracts – with foreign banks	-	-	-	8,452	-	-
BYR - EUR contracts - with domestic banks	6,139	-	(144)	-	-	-
RUR - USD contracts - with domestic banks	14,876	17	-	-	-	-
USD - RUR contracts – with foreign banks	13,975	70	-	-	-	-
USD - JPY contracts – with foreign banks	4,201	-	(139)	-	-	-
		<u>181</u>	<u>(385)</u>		<u>28</u>	<u>(27)</u>
		<u>181</u>	<u>(472)</u>		<u>31</u>	<u>(27)</u>

(Millions of Belarusian roubles unless otherwise indicated)

25. Net fee and commission income

Net fee and commission income comprises:

	<u>2007</u>	<u>2006</u>
Settlement operations	15,507	8,865
Operations with plastic cards	2,353	1,080
Currency conversion operations	1,844	1,476
Fees on transactions with other banks	380	474
Other	350	1,111
Fee and commission income	20,434	13,006
Settlement operations	(3,578)	(674)
Currency conversion operations	(160)	(184)
Operations with plastic cards	(1,602)	(834)
Other	(296)	(81)
Fee and commission expense	(5,636)	(1,773)
Net fee and commission income	14,798	11,233

26. Personnel and other operating expenses

Personnel and benefits, and other operating expenses comprise:

	<u>2007</u>	<u>2006</u>
Salaries and bonuses	18,328	12,477
Social security costs	5,462	3,920
Salaries and benefits	23,790	16,397
Occupancy and rent	2,240	1,506
Services of international payment systems	1,814	891
Office supplies	1,564	1,087
Legal and consultancy	1,013	1,148
Communications	832	600
Transportation and car expenses	726	415
Expenses on guarantee fund	708	345
Security	679	525
Marketing and advertising expenses	526	300
Insurance	472	31
Software expenses	456	289
Business trip and related expenses	241	88
Charity	233	74
Insurance of the banking operations	216	167
Repair and maintenance	189	147
Other	1,018	562
Other operating expenses	12 927	8 175

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach. The Board of Directors approves Regulation on the Management Board.

Management Board

The Management Board is responsible for approving overall risk strategies and principals, separate regulations on risk management, controls efficiency and quality of risk management and establishes limits on certain banking operations.

Risk Committees

The Bank's Asset/Liability Management Committee, credit committees, financial committee and technical committee establish limits and restrictions on certain banking operations, perform control over certain risk levels and take measures to mitigate the Bank's risk exposure.

Credit committees and Asset/Liability Management Committee are responsible for taking decisions in respect of entering into transactions exposed to risks, as part of delegated by Management Board authorities.

The Department of Prudential Reporting and Risk Management

The Department of Prudential Reporting and Risk Management coordinates the process of risk management, measures the overall Bank's risk exposure, performs integrated “stress testing” of the risk level and prepares reports for the Bank's directors.

Internal Audit

Internal Audit examines completeness of application and efficiency of risk measurement methodology and risk management procedures.

As one of the measures of risk management the Bank grants letters of attorney to executives, which specify the limits of their authorities that do not require the approval of collegiate management bodies.

All operations are performed within the limits established by the regulatory bodies.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects the expected loss likely to arise in normal circumstances. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits are based on safety activities ratio established by the NBRB.

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)

The managing bodies of the Bank make decisions on risk operations and establish limits defining maximum allowed risk on certain operations. They also set up maximum risk level on which the risk operation must be canceled and steps to risk maximization and neutralization must be performed.

The Bank's Asset/Liability Management Committee establishes limits of certain lending and attraction operations, limits of active operations with financial instruments, structural limit on operations with securities performed by the subdivisions, including branches.

Credit committees establish maximum level of funds further used to finance the borrowers, interest rates on loans.

The Bank establishes limits based on assumption that maximum level of aggregated risk should not exceed Bank's equity.

The Management Board distributes and establishes maximum risk level for various activities of the Bank in accordance with the Bank's priorities and based on the data submitted by the risk manager where current trends analysis and their possible future changes are presented above.

Respective body distributes limits among branches in accordance with mostly valuable and less exposure to centralised risk. The branches should perform their activities based on established limits and general principals of risk management. Control after established limits is constantly performed. This control is implemented by the internal audit during revisions, Department of Prudential Reporting and Risk Management through the process of reports preparation. External control is performed by the revision commission of the Bank.

Information obtained under all activities is examined and prepared for analyses, control and early risks detection purposes. This information is presented to the Board of Directors, Management Board, the Bank's Asset/Liability Management Committee, Financial committee and Head of all Departments. Report includes information about certain risk levels, exemptions of risk limits, values at risk (VaR), liquidity and changes in risk levels. Respective bodies constantly determine the necessity of allowance for loan impairment. The Management Board receives reports on risk which includes all necessary information for risk measurement and relevant decisions made on a quarterly basis.

Reports on risks are prepared for the purposes of different Bank's departments and are aimed at providing acute and relevant information

Risk mitigation

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

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines designed to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management (continued)

Credit risk (continued)

The Bank manages credit risk in three directions by managing credit risk on operations with corporate clients, with individuals and with credit institutions.

Regulation of acceptable credit risk is performed based on following procedures:

- clear distribution of responsibilities among authorised bodies during the decision making process;
- establishment of limits on certain operations for the purpose of credit risk mitigation;
- regular analysis of borrowers' financial position and their ability to repay loans;
- requirement to provide collateral under loans granted for the purpose of credit risk mitigation;
- constant monitoring of risk exposure and its condition, preparation of relevant management reports for credit committees, Management Board and other concerned parties;
- measurement and ensuring of capital adequacy necessary for risk coverage during Bank activities;
- permanent internal control for observation of local acts regulated the procedure of risk measurement and management performed by the internal audit.

Main regulations on credit procedures were updated during 2007. This fact allowed to increase lending processes efficiency with contemporary reduction of operation risk during credit operations.

The Bank performs quarterly credit risk analysis based on the possibility of event occurrence resulting in risk exposure that makes it possible to evaluate possible losses. The analysis may be quantitative or qualitative.

Results of quantitative and qualitative (stress testing) measurements are provided by credit committee and become a base for correction of credit policy.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and after deducting any allowance for impairment.

	<i>Notes</i>	<i>Maximum exposure 2007</i>	<i>Maximum exposure 2006</i>
Cash and cash equivalents (excluding cash on hand)	5	84,165	66,973
Trading securities	6	136,150	59,156
Amounts due from credit institutions	9	17,230	12,550
Derivative financial assets	16	181	31
Loans to customers	10	647,537	324,815
Investment securities	11	555	753
Other assets	16	<u>2,752</u>	<u>2,017</u>
Financial commitments and contingencies	24	<u>106,675</u>	<u>60,585</u>
Total credit risk exposure		<u><u>995,245</u></u>	<u><u>526,880</u></u>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank’s internal credit ratings. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank’s credit rating system.

	Notes	Neither past due nor impaired			Past due or individually impaired 2007	Total 2007
		High grade 2007	Standard grade 2007	Sub-standard grade 2007		
Amounts due from credit institutions	9	17,230	-	-	-	17,230
Loans to customers	10					
Corporate lending		299,996	-	-	47,370	347,366
Small business lending		60,641	-	-	319	60,960
Leasing		35,133	-	-	1,217	36,350
Factoring “Delay”		44,132	-	-	352	44,484
Plastic cards		20,660	-	-	223	20,883
Other loans to individuals		148,569	89	-	1,846	150,504
		609,131	89	-	51,327	660,547
Investment securities	11					
Available-for-sale		-	486	-	-	486
		-	486	-	-	486
Total		626,361	575	-	51,327	678,263

	Notes	Neither past due nor impaired			Past due or individually impaired 2006	Total 2006
		High grade 2006	Standard grade 2006	Sub-standard grade 2006		
Amounts due from credit institutions	9	12,550	-	-	-	12,550
Loans to customers	10					
Corporate lending		134,246	169	-	49,997	184,412
Small business lending		36,204	-	-	204	36,408
Leasing		24,343	-	-	7,238	31,581
Factoring “Delay”		16,026	-	-	66	16,092
Plastic cards		1,546	-	-	8	1,554
Other loans to individuals		62,750	7	-	489	63,246
		275,115	176	-	58,002	333,293
Investment securities	11					
Available-for-sale		-	537	-	-	537
		-	537	-	-	537
Total		287,665	713	-	58,002	346,380

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank’s risk categories, determined by the NBRB. The attributable risk categories are assessed and reviewed regularly.

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management (continued)

Credit risk (continued)

Ageing analysis of past due but not impaired loans per class of financial assets

	<i>Less than 30 days 2007</i>	<i>31 to 60 days 2007</i>	<i>61 to 90 days 2007</i>	<i>More than 91 days 2007</i>	<i>Total 2007</i>
Loans to customers					
Corporate lending	1,312	26	-	119	1,457
Small business lending	152	14	28	84	278
Plastic cards	104	39	42	36	221
Other loans to individuals	310	73	443	877	1,703
Total	1,878	152	513	1,116	3,659

	<i>Less than 30 days 2006</i>	<i>31 to 60 days 2006</i>	<i>61 to 90 days 2006</i>	<i>More than 91 days 2006</i>	<i>Total 2006</i>
Loans to customers					
Corporate lending	-	622	217	128	967
Small business lending	162	15	-	2	179
Leasing	-	-	-	17	17
Plastic cards	7	1	-	-	8
Other loans to individuals	46	51	36	326	459
Total	215	689	253	473	1,630

See Note 11 for more detailed information with respect to the allowance for impairment of loans to customers.

Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	<i>2007</i>	<i>2006</i>
Loans to customers		
Corporate lending	-	210
Small business lending	2	-
Total	2	210

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2007				2006			
	<i>CIS and other foreign countries</i>	<i>Belarus</i>	<i>OECD</i>	<i>Total</i>	<i>CIS and other foreign countries</i>	<i>Belarus</i>	<i>OECD</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	29,007	68,497	9,431	106,935	9,431	52,920	17,763	80,114
Trading securities	3,226	69,592	63,332	136,150	2,533	56,623	-	59,156
Amounts due from NBRB	-	14,313	-	14,313	-	10,496	-	10,496
Amounts due from credit institutions	671	1,606	640	2,917	-	2,000	54	2,054
Loans to customers	14	647,523	-	647,537	-	324,815	-	324,815
Investment securities	486	-	-	486	537	-	-	537
Other assets	-	2,750	2	2,752	28	1,578	411	2,017
	33,404	804,281	73,405	911,090	12,529	448,432	18,228	479,189
Liabilities								
Amounts due to NBRB	-	20,232	-	20,232	-	22,885	-	22,885
Amounts due to credit institutions	157,514	25,385	189,143	372,042	71,001	37,075	69,913	177,989
Amounts due to customers	23,149	391,755	27,067	441,971	1,958	200,075	456	202,489
Amounts due to international financial institutions	-	-	42,038	42,038	-	-	31,083	31,083
Debt securities issued	-	1	-	1	-	110	-	110
Subordinated debt	10,750	-	-	10,750	21,448	-	-	21,448
Other liabilities	45	3,939	34	4,018	31	809	681	1,521
	191,458	441,312	258,282	891,052	94,438	260,954	102,133	457,525
Net balance sheet position	(158,054)	362,969	(184,877)	20,038	(81,909)	187,478	(83,905)	21,664
Net off-balance sheet position	2,357	88,862	14,362	105,581	1,539	54,148	3,066	58,753

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted.

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBRB. As of 31 December 2007, these ratios were as follows:

	Limit by NBRB, %	2007, %	2006, %
“Current Liquidity Ratio” (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	70	131.6	100.7
“Short-Term Liquidity Ratio” (assets receivable or realisable within one year / liabilities repayable within one year)	100	490	270
“Quick Liquidity Ratio” (assets on demand / liabilities on demand)	20	72.3	109.2

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank’s financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

Financial liabilities As of 31 December 2007	Less than 90 days	91 days to 1 year	1 to 5 years	Over 5 years	Total
Amounts due to NBRB	-	9,720	15,151	-	24,871
Amounts due to credit institutions	106,564	241,975	57,938	-	406,477
Derivative financial instruments					
- Contractual amounts payable	55,256	-	-	-	55,256
- Contractual amounts receivable	(54,784)	-	-	-	(54,784)
Amounts due to customers	187,922	88,883	197,245	33,887	507,937
Debt securities issued	1	-	-	-	1
Subordinated debt	-	-	14,394	-	14,394
Other liabilities	5,520	285	796	-	6,601
Total undiscounted financial liabilities	300,479	340,863	285,524	33,887	960,753

Financial liabilities As of 31 December 2006	Less than 90 days	91 days to 1 year	1 to 5 years	Over 5 years	Total
Amounts due to NBRB	-	5,610	26,738	-	32,348
Amounts due to credit institutions	50,250	123,171	59,569	-	232,990
Derivative financial instruments					
- Contractual amounts payable	27,858	-	-	-	27,858
- Contractual amounts receivable	(27,831)	-	-	-	(27,831)
Amounts due to customers	141,488	23,688	34,239	17,628	217,043
Debt securities issued	112	-	-	-	112
Subordinated debt	-	-	14,240	17,653	31,893
Other liabilities	1,033	273	172	16	1,494
Total undiscounted financial liabilities	192,910	152,742	134,958	35,297	515,907

The table below shows the contractual expiry by maturity of the Bank’s financial commitments and contingencies.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2007	8,632	40,599	55,816	1,628	106,675
2006	10,095	15,326	33,905	1,259	60,585

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management (continued)

Liquidity risk and funding management (continued)

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk – Non - trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007.

<i>Currency</i>	<i>Increase in basis points, 2007</i>	<i>Sensitivity of net interest income, 2007</i>	<i>Decrease in basis points, 2007</i>	<i>Sensitivity of net interest income, 2007</i>
BYR	50	713	50	(713)
EUR, USD, RUB	50	121	50	(121)

<i>Currency</i>	<i>Increase in basis points 2007</i>	<i>Sensitivity of net interest income 2007</i>	<i>Decrease in basis points 2006</i>	<i>Sensitivity of net interest income 2006</i>
BYR	50	554	50	(554)
EUR, USD, RUB	50	25	50	(25)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's Asset/Liability Management Committee has set limits on positions by currency based on the NBRB regulations. Positions are monitored on a daily basis.

(Millions of Belarusian roubles unless otherwise indicated)

27. Risk management (continued)

Market risk – Non – trading (continued)

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2007 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian rouble, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	Change in	Effect on	Change in	Effect on
	currency rate	profit before	currency rate	profit before
	in %	tax	in %	tax
	2007	2007	2006	2006
USD	0.6	34	1.7	(54)
EUR	8.1	(533)	8.6	(28)
RUB	4.5	36	5.3	92

Currency	Change in	Effect on	Change in	Effect on
	currency rate	profit before	currency rate	profit before
	in %	tax	in %	tax
	2007	2007	2006	2006
USD	0.6	(34)	1.7	54
EUR	8.1	533	8.6	28
RUB	4.5	(36)	5.3	(92)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The management of the Bank considers that the effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2007) due to a reasonably possible change in equity indices is insignificant.

Operational risk

Operational risk is risk of loss arising from mismatch of existing internal acts and procedures to state legislation or their violation by Bank's employees, failure or fraud, mismatch or mistake of software also as a result of external events.

Operational risk can cause not just financial loss but also damage to reputation or lowering the work efficiency. Operational risk can't be totally eliminated. As a priority goal the Bank aspires to widen operational risk identification and management. This is realised on the base of internal controls system development, by limitations and restrictions and outsourcing. Internal controls system provides effective responsibility distribution and access to documentation and other information, procedures of approvals, checking, measurement, including internal audit and also development of human resources.

(Millions of Belarusian roubles unless otherwise indicated)

28. Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>Carrying value 2007</i>	<i>Fair value 2007</i>	<i>Unrecognised gain/(loss) 2007</i>	<i>Carrying value 2006</i>	<i>Fair value 2006</i>	<i>Unrecognised gain/(loss) 2006</i>
Financial assets						
Cash and cash equivalents	106,935	106,935	-	80,114	80,114	-
Trading securities	136,150	136,150	-	59,156	59,156	-
Amounts due from NBRB	14,313	14,313	-	10,496	10,496	-
Amounts due from credit institutions	17,230	17,230	-	12,550	12,550	-
Derivative financial assets	181	181	-	31	31	-
Loans to customers	647,537	647,537	-	324,815	324,815	-
Investment securities:						
- available-for-sale	486	486	-	537	537	-
Financial liabilities						
Amounts due to the National Bank	20,232	20,232	-	22,885	22,885	-
Amounts due to credit institutions	330,004	330,004	-	177,989	177,989	-
Amounts due to international financial organisations	42,038	42,038	-	31,083	31,083	-
Derivative financial liabilities	472	472	-	27	27	-
Amounts due to customers	441,971	441,971	-	202,489	202,489	-
Debt securities issued	1	1	-	110	110	-
Total unrecognised change in unrealised fair value			-			-

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

(Millions of Belarusian roubles unless otherwise indicated)

28. Fair value of financial instruments (continued)

	Quoted market price 2007	Valuation techniques – market observable inputs 2007	Total 2007
Financial assets			
Derivative financial instruments	-	181	181
Trading securities	66,558	69,592	136,150
Investment securities – available-for-sale	486	-	486
	67,044	69,773	136,817
Financial liabilities			
Derivative financial instruments	-	472	472
	-	472	472
	Quoted market price 2006	Valuation techniques – market observable inputs 2006	Total 2006
Financial assets			
Derivative financial instruments	-	31	31
Trading securities	2,533	56,623	59,156
Investment securities – available-for-sale	537	-	537
	3,070	56,654	59,724
Financial liabilities			
Derivative financial instruments	-	27	27
	-	27	27

Certain financial instruments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against the prices of actual market transactions and using the Bank's best estimate of the most appropriate model inputs. These are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty current spread and limitations in the models. Also, profit calculated when such financial instruments are first recorded ('Day 1' profit) is deferred and recognised only when the inputs become observable or on derecognition of the instrument (see below). The potential effect of using reasonably possible alternative assumptions for valuing financial instruments would increase the fair value by BYR 114 million.

(Millions of Belarusian roubles unless otherwise indicated)

29. Maturity analysis of financial assets and liabilities

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2007			2006		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Financial assets						
Cash and cash equivalents	106,935	-	106,935	80,114	-	80,114
Due from NBRB	-	14,313	14,313	-	10,496	10,496
Due from banks	506	2,411	2,917	421	1,633	2,054
Loans to customers	368,473	279,064	647,537	180,647	144,168	324,815
Trading securities	136,150	-	136,150	59,156	-	59,156
Investment securities	555	-	555	753	-	753
Derivative financial assets	181	-	181	31	-	31
Total	612,800	295,788	908,588	321,122	156,297	477,419
Financial liabilities						
Amounts due to NBRB	7,872	12,360	20,232	3,457	19,428	22,885
Amounts due to credit institutions	327,907	2,097	330,004	156,341	21,648	177,989
Amounts due to customers	270,412	171,559	441,971	168,551	33,938	202,489
Due to international financial institutions	1,507	40,531	42,038	-	31,083	31,083
Debt securities issued	1	-	1	110	-	110
Subordinated debt	-	10,750	10,750	-	21,448	21,448
Derivative financial liabilities	472	-	472	27	-	27
Total	608,171	237,297	845,468	328,486	127,545	456,031
Net	4,629	58,491	63,120	(7,364)	28,752	21,388

The Bank has received significant funds from different credit and international financial institutions (Note 18 and 20). Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

Long-term loans are generally not available in Belarus, except for programmes set up by international financial institutions. However, in the Belarusian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due within one year in the tables above. While investment securities are shown as realisable within one year, realising such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Included in amounts due to customers are term deposits of individuals. In accordance with the Belarusian legislation, the Bank is obliged to repay such deposits upon the demand of a depositor. Refer to Note 18. Interest rate risk management of the Bank refrain the customers from advance repayments.

(Millions of Belarusian roubles unless otherwise indicated)

30. Related party disclosures

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2007			2006		
	Shareholders	Companies under common control	Key management personnel	Shareholders	Companies under common control	Key management personnel
Due from credit institutions						
- current accounts (nostro)	2,180	-	-	3,627	-	-
	2,180	-	-	3,627	-	-
Loans to customers, gross	-	-	1,350	-	-	434
Amounts due to credit institutions						
- current accounts (loro)	1,614	50	-	371	-	-
- time deposits	46,074	-	-	36,156	-	-
	47,688	50	-	36,527	-	-
Amounts due to customers						
- current accounts	17,471	1,722	110	2,293	2,359	-
- time deposits	7,693	-	966	-	3,099	175
	25,164	1,722	1,076	2,293	5,458	175
Subordinated debt	10,750	-	-	21,448	-	-
Letters of credit, guarantees and commitments issued	13,027	-	-	2,131	-	-
Interest income						
- on due from credit institutions	7	-	-	6	-	-
- on loans to customers	-	-	78	-	-	42
	7	-	78	6	-	42
Interest expense						
- on due to credit institutions	3,474	-	-	2,462	-	-
- on due to customers	539	10	103	78	90	16
- on subordinated debt	2,179	-	-	2,323	-	-
	6,192	10	103	4,863	90	16

Compensation of key management personnel was comprised of the following:

	2007	2006
Salaries and other short-term benefits	2,670	762
Social security costs	939	274
Total key management compensation	3,609	1,036

(Millions of Belarusian roubles unless otherwise indicated)

30. Related party disclosures (continued)

Subsidiaries

The consolidated financial statements include the following major subsidiaries:

<i>2007</i>					
<i>Subsidiary</i>	<i>Ownership/ Voting, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
BGPB Depository	100%	Belarus	January 2005	Depository institution	January 2005
<i>2006</i>					
<i>Subsidiary</i>	<i>Ownership/ Voting, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
BGPB Depository	100%	Belarus	January 2005	Depository institution	January 2005

31. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBRB in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBRB capital adequacy ratio

The NBRB requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on BAS. As of 31 December 2007 and 2006, the Bank's capital adequacy ratio on this basis was as follows:

	<i>2007</i>	<i>2006</i>
Main capital	70,354	33,088
Additional capital	27,837	30,025
Less: deductions from capital	(783)	(164)
Total capital	97,408	62,949
Risk weighted assets	738,709	414,496
Capital adequacy ratio	13.2%	15.2%

Regulatory capital consists of Tier 1 capital (Main capital), which comprises share, share premium, retained earnings, less accrued dividends, current year losses, unmade specific regulatory allowance for loans impairment, net long positions in own shares, net intangible assets and equity investments in associates and subsidiaries. The other components of regulatory capital is Tier 2 and Tier 3 capital (Additional capital), which include current year profit, subordinated long-term debt, preference shares, revaluation reserves and subordinated short-term debt, correspondingly.

(Millions of Belarusian roubles unless otherwise indicated)

31. Capital (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2007 and 2006, comprised:

	<u>2007</u>	<u>2006</u>
Tier 1 capital	90,905	47,310
Tier 2 capital	10,750	21,448
Total capital	101,655	68,758
Risk weighted assets	720,670	379,083
Tier 1 capital ratio	12.6%	12.5%
Total capital ratio	14.1%	18.1%

32. Events after the balance sheet date

On 21 March 2008, the Bank's Shareholders' meeting declared dividends of BYR 3,861 million based on the results of 2007 financial year.

On 21 March 2008, the Bank's Shareholders' meeting decided to increase the share capital of the Bank by USD 75 million. The issued shares will be evenly distributed between JSC "Gazprom" and "GPB" (JSC).