JSC “Belgazprombank”

Independent Auditors’ Report

Financial Statements
Year ended 31 December 2004

JSC “BELGAZPROMBANK”

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Joint Stock Company "Belgazprombank" (the "Bank") as of 31 December 2004 and the related profit and loss account, statements of changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 29, describing the fact that at present there is economic uncertainty in the Republic of Belarus.

Deloitte & Touche

31 March 2005

JSC “BELGAZPROMBANK”

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004
(in millions of Belarusian Roubles)

	Notes	2004	2003
Interest income	4, 25	22,438	24,203
Interest expense	4, 25	(11,163)	(11,791)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		11,275	12,412
Recovery of provision / (provision) for loan losses	5	135	(1,906)
NET INTEREST INCOME		11,410	10,506
Net gain on trading and available-for-sale securities	6, 25	3,290	2,860
Net gain on foreign exchange operations		1,864	4,511
Fees and commission income	7, 25	10,479	10,217
Fees and commission expense	7, 25	(1,256)	(1,209)
Other operating gains	25	757	481
NET NON-INTEREST INCOME		15,134	16,860
OPERATING INCOME		26,544	27,366
OPERATING EXPENSES	8	(19,591)	(17,613)
PROFIT BEFORE OTHER PROVISIONS, INCOME TAX AND LOSS ON NET MONETARY POSITION		6,953	9,753
Recovery of provision for losses on other transactions	5	6	436
PROFIT BEFORE INCOME TAX AND LOSS ON NET MONETARY POSITION		6,959	10,189
Income tax expense	9	(2,458)	(4,471)
PROFIT BEFORE LOSS ON NET MONETARY POSITION		4,501	5,718
Loss on net monetary position due to inflation effect		(2,781)	(4,827)
NET PROFIT		1,720	891

On behalf of the Board:

Chairman **Chief Accountant**

The notes on pages 6 to 33 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

BALANCE SHEET
AS OF 31 DECEMBER 2004
(in millions of Belarusian Roubles)

	Notes	2004	2003
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	10	27,536	21,813
Precious metals		259	153
Loans and advances to banks, less allowance for loan losses	11, 25	31,111	45,968
Trading securities	12, 25	12,921	9,441
Loans and advances to customers, less allowance for loan losses	13, 25	110,056	96,189
Securities purchased under agreements to resell	14	250	1,194
Securities available for sale	15, 25	6,650	5,369
Fixed and intangible assets, less accumulated depreciation	16	18,003	17,205
Other assets, less allowance for losses	17	4,080	3,323
TOTAL ASSETS		210,866	200,655
LIABILITIES AND SHAREHOLDERS' EQUITY:			
LIABILITIES:			
Deposits from banks	18, 25	48,914	52,060
Customer accounts	19, 25	111,303	101,869
Debt securities issued	20	182	7,874
Other liabilities	21	1,588	1,765
Subordinated debt	22	10,888	-
Total liabilities		172,875	163,568
SHAREHOLDERS' EQUITY:			
Share capital	23	28,213	28,213
Retained earnings		9,778	8,874
Total shareholders' equity		37,991	37,087
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		210,866	200,655
FINANCIAL COMMITMENTS AND CONTINGENCIES	24	24,182	15,848

On behalf of the Board:

Chairman

Chief Accountant

The notes on pages 6 to 33 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

JSC "BELGAZPROMBANK"

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004
(in millions of Belarusian Roubles)

	Share capital	Retained earnings	Total shareholders' equity
As of 31 December 2002	23,045	8,584	31,629
Share capital increase	5,168	-	5,168
Net profit	-	891	891
Dividends paid	-	(601)	(601)
As of 31 December 2003	28,213	8,874	37,087
Net profit	-	1,720	1,720
Dividends paid	-	(816)	(816)
As of 31 December 2004	28,213	9,778	37,991

On behalf of the Board:

Chairman

Chief Accountant

The notes on pages 6 to 33 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

JSC "BELGAZPROMBANK"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004
(in millions of Belarusian Roubles)

	Notes	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes and loss on net monetary position		6,959	10,189
Adjustments for:			
(Recovery)/ provision for loan losses	5	(135)	1,906
Recovery of provision for losses on other transactions	5	(6)	(436)
Depreciation charge on fixed and intangible assets	16	1,060	853
Change in interest accruals		290	747
Gain on sale of other assets		(226)	-
Loss on sale of fixed assets		3	-
Operating profit before changes in operating assets and liabilities		7,945	13,259
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		736	(1,343)
Loans and advances to banks		15,436	(19,075)
Trading securities		(3,480)	(3,575)
Securities available for sale		(1,353)	2,618
Loans and advances to customers		(13,692)	(26,832)
Securities purchased under agreement to resell		944	(1,180)
Other assets		(466)	960
Increase/(decrease) in operating liabilities:			
Deposits from banks		(3,180)	12,294
Customer accounts		9,507	39,240
Other liabilities		(243)	332
Cash inflow from operating activities before income taxes		12,154	16,698
Income taxes paid		(2,458)	(4,471)
Net cash inflow from operating activities		9,696	12,227
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of fixed and intangible assets		(1,789)	(3,115)
Disposals of fixed and intangible assets		(23)	73
Net cash outflow from investing activities		(1,812)	(3,042)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase		-	5,169
Proceeds from subordinated debt		10,850	-
Dividends paid		(816)	(601)
Repayment of debt securities issued		(22,775)	(5,513)
Proceeds from debt securities issued		14,517	3,514
Net cash inflows from financing activities		1,776	2,569
NET INCREASE IN CASH AND CASH EQUIVALENTS		9,660	11,754
INFLATION EFFECT ON MONETARY ITEMS (EXCEPT VALUATION ALLOWANCES)		(2,707)	(5,560)
CASH AND CASH EQUIVALENTS, beginning of year	10	15,454	9,260
CASH AND CASH EQUIVALENTS, end of year	10	22,407	15,454

Interest paid and received by the Bank in cash during the year ended 31 December 2004 amounted to BYR 11,210 million and BYR 22,750 million, respectively. Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to BYR 11,687 million and BYR 25,041 million, respectively.

On behalf of the Board:

Chairman **Chief Accountant**

The notes on pages 6 to 33 form an integral part of these financial statements. The Independent Auditors' Report

1. ORGANISATION

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

As of 31 December 2004 and 2003 the following shareholders owned the Bank's shares:

Shareholder:	%
RAO "Gazprom"	33.91
ZAO "Gazprombank"	33.91
JSC "Beltransgaz"	23.50
Ministry of Economy of the Republic of Belarus	8.63
Other	0.05
Total	100.00

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

As of 31 December 2004 and 2003 the Bank had 7 branches in the Republic of Belarus.

The average number of employees of the Bank during 2004 and 2003 was 689 and 630, respectively.

These financial statements were authorized for issuance by the Management Board on 31 March 2004.

2. BASIS OF PRESENTATION

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

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

Shareholders' equity as of 31 December 2004 and 2003 and profit for the years then ended are reconciled between statutory accounting legislation and IFRS as follows:

	2004			2003		
	Total equity	**Share capital**	**Profit**	**Total equity**	**Share capital**	**Profit**
Statutory accounting legislation	**33,669**	**20,448**	**3,144**	**18,304**	**6,465**	**2,986**
Effect of accrued interest	1,106	-	1,952	(792)	-	(792)
Provisions for losses	(2,737)	-	384	(3,570)	-	(884)
Currency revaluation adjustments	(846)	-	(846)	15,685	-	4,284
Hyperinflation adjustments effect, net	6,951	7,765	(2,808)	7,512	21,748	(4,437)
Other, net	(152)	-	(106)	(52)	-	(266)
International Financial Reporting Standards	**37,991**	**28,213**	**1,720**	**37,087**	**28,213**	**891**

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

The application of IAS 29 results in an adjustment to the profit and loss account for the loss of purchasing power of the Belarusian Rouble. The gain or loss on net monetary position is calculated as the difference resulting from the restatement of non-monetary assets, shareholders' equity and profit and loss account items. Corresponding figures for the year ended 31 December 2003 have also been restated for the changes in the general purchasing power of the Belarusian Rouble at 31 December 2004.

The restatement was calculated using the Consumer Price Index ("CPI"), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The CPIs for the five years ended 31 December 2004 was as follows:

Year	**% change**
2004	14%
2003	25%
2002	35%
2001	46%
2000	108%

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2004. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at 31 December 2004) are restated by applying the relevant index. The effect of inflation on the Bank's net monetary position is included in the profit and loss account as a gain or loss on net monetary position.

Amounts included in the profit and loss account have been indexed by the change in the CPI based on the following assumptions:
- Inflation has occurred evenly over the year;
- Income and expenditures have accrued evenly over the year.

Measurement and presentation currency - The measurement and presentation currency of these financial statements is the local currency – Belarusian rouble.

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

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments - The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities is recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents - Cash and cash equivalents for the purposes of cash flow statement include cash, unrestricted balances with the National Bank of the Republic of Belarus with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD") and precious metals. For the purposes of determining cash flows, the minimum reserve deposit required by the National Bank of the Republic of Belarus (Note 10) and certain advances to banks (Note 11) are not included as cash equivalents due to restrictions on their availability.

Precious metals - Assets denominated in precious metals are measured at cost.

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

Trading securities - Trading securities represent debt securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which is the fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. Fair value adjustment on trading securities is recognized in the profit and loss account for the period.

Repurchase and reverse repurchase agreements - The Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of business.

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

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

Originated loans **-** Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as trading investments.

Loans granted by the Bank are initially recognized in accordance with the policy stated above. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the profit and loss account. This difference is recognised in the period of inception of the loan and is calculated by discounting using market rates prevailing at inception of the loan.

Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

Write-off of loans **-** Loans are written off against allowance for loan losses in case of uncollectibility. Write-off of loans against loan loss allowance is performed after one year since loans are recognized as uncollectible under statutory regulations.

Non-accrual loans **-** Loans are placed on a non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized where recovery is doubtful.

Allowance for loan losses **-** The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

The determination of the allowance for losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the risk assets. Provisions are made as a result of a detailed appraisal of risk assets.

The change in the allowance for losses is charged to the profit and loss account and the total of the allowance for losses is deducted in arriving at the carrying amount of assets as shown in the balance sheet. Management's evaluation of the allowance is based upon the Bank’s past loss experience, known and inherent risks in the risk assets, adverse situations that may affect the debtor's ability to repay, the estimated value of any underlying collateral and current economic conditions.

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

Securities available for sale **-** Securities available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which is the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account. The Bank uses quoted market prices to determine fair value for the Bank’s securities available for sale. Accrued interest receivable is included in the market price of the securities. If such quotes do not exist, management estimation is used.

Realised and unrealised gains and losses arising from changes in the fair value of securities available for sale are included in the profit and loss account in the period in which they arise as gain/(loss) on securities available for sale. Interest earned on securities available for sale is reflected in the profit and loss account as interest income. Dividends received are included in other operating gains.

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

Buildings	1%
Computers	5.6%
Furniture and equipment	8-10%
Intangible assets	4.9%

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

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

Income taxes **-** Taxes on income are computed in accordance with the laws of the Republic of Belarus. Deferred taxes are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the liability method at the statutory tax rates. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized. Deferred income tax assets and liabilities are offset when:

- the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

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

Subordinated debt **-** subordinated debt is initially measured at the fair value of consideration received and subsequently measured at amortized cost.

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

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

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

Derivative financial instruments are initially recorded at cost which is equal to the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term nature.

The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under 'Net gain on foreign exchange operations' item.

Share capital and share premium - Share capital is recognized at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury stock is recorded at restated cost. Gains and losses on sales of treasury stock are charged or credited to share premium.

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

Contingencies - Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense - Interest income and expense are recognized on the accrual basis calculated using the effective yield method. The recognition of interest income is suspended when loans become overdue by more than 30 days. Interest income includes also interest income earned on securities available for sale. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized on the accrual basis.

Foreign currency transactions - Assets and liabilities denominated in foreign currencies are translated at the appropriate spot rates of exchange ruling at the balance sheet date. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

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

	31 December 2004	**31 December 2003**
BYR/USD	2,170.00	2,156.00
BYR/EUR	2,955.65	2,695.22
BYR/RUR	77.91	73.19

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

Reclassifications - Certain reclassifications have been made to the financial statements as of 31 December 2003 and for the year then ended to conform to the presentation as of 31 December 2004.

4. NET INTEREST INCOME

	2004	2003
Interest income		
Interest on loans and advances to customers	17,803	19,410
Interest on loans and advances to banks	3,590	2,787
Interest on debt securities	870	1,567
Other interest income	175	439
Total interest income	22,438	24,203
Interest expense		
Interest on customer accounts	5,867	6,261
Interest on deposits from banks	5,063	3,579
Interest on debt securities issued	233	1,951
Total interest expense	11,163	11,791
Net interest income	11,275	12,412

5. ALLOWANCE FOR LOSSES AND PROVISIONS

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

	Loans and advances to banks	Loans and advances to customers	Total
31 December 2002	268	2,559	2,827
Provision	55	1,851	1,906
Write-off of assets against allowance	-	(173)	(173)
Gain on net monetary position	(60)	(675)	(735)
31 December 2003	263	3,562	3,825
Provision / (recovery of provision)	(175)	40	(135)
Write-off of assets against allowance	-	(35)	(35)
Gain on net monetary position	(22)	(449)	(470)
31 December 2004	66	3,118	3,185

The movements in allowances for losses on other assets and provisions were as follows:

	Other assets	Guarantees and other commitments	Total
31 December 2002	-	809	809
Provision /(Recovery of provision)	141	(577)	(436)
Gain on net monetary position	(33)	(103)	(136)
31 December 2003	108	129	237
Provision /(Recovery of provision)	(18)	12	(6)
Gain on net monetary position	(14)	(16)	(30)
31 December 2004	76	125	201

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

6. NET GAIN ON TRADING AND AVAILABLE-FOR-SALE SECURITIES

Net gain on trading and available-for-sale securities comprises:

	2004	2003
Net gain on trading securities	2,477	2,800
Net gain on available-for-sale securities	813	60
Net gain on trading and available-for-sale securities	3,290	2,860

7. FEES AND COMMISSION INCOME AND EXPENSE

	2004	2003
Fees and commission income:		
Settlements and other services to customers	5,932	6,729
Commission on currency transactions	4,225	3,227
Commission on transactions with banks	215	192
Commission on transactions with securities	39	10
Other fees and commission income	68	59
Total fees and commission income	10,479	10,217

	2004	2003
Fees and commission expense:		
Commission on currency transactions	719	614
Commission on transactions with banks	494	549
Commission on transactions with securities	40	46
Other fees and commission expense	3	-
Total fees and commission expense	1,256	1,209

8. OPERATING EXPENSES

	2004	2003
Staff costs	10,490	9,357
Taxes, other than income tax	2,222	1,986
Occupancy costs	1,262	764
Depreciation	1,060	853
Software use fees	834	512
Professional services fees	564	937
Communication	486	626
Security expenses	430	387
Payments to deposits protection fund	354	341
Transportation	328	794
Other	1,561	1,056
Total operating expenses	19,591	17,613

9. INCOME TAXES

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2004 and 2003, tax rate for Belarusian banks was 30% for republican tax and 4% and 5%, respectively, for municipal tax (rates were charged successively, combined rates comprised 32.8% and 33.5%, respectively).

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2004 and 2003 were as follows:

	2004	2003
Deductible temporary differences:		
Loans to banks and customers	2,536	3,333
Other liabilities (provisions)	567	250
Total deductible temporary differences:	3,103	3,583
Taxable temporary differences:		
Accrued interest income	78	354
Other assets	458	24
Total taxable temporary differences:	536	378
Net deductible temporary differences:	2,567	3,205
Deferred tax assets at the statutory rate (32.8%)	842	1,051
Less: valuation allowance	(842)	(1,051)
Net deferred tax asset	-	-

Relationships between tax expenses and accounting profit for the years ended 31 December 2004 and 2003 are explained as follows:

	2004	2003
Profit before income taxes and after loss on net monetary position	6,959	5,361
Statutory tax rate	32.8%	33.5%
Theoretical tax at the statutory tax rate	2,283	1,797
Tax effect of permanent differences	237	2,717
Change in valuation allowance	(62)	(65)
Change in tax rate	-	22
Tax expense	2,458	4,471

The movements in deferred tax asset valuation allowance are as follows:

	2004	2003
At the beginning of the year	1,051	1,128
Provision	(62)	(65)
Gain on net monetary position	(147)	(142)
At the end of the year	842	1,051

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

Cash and balances with the National Bank comprise:

	2004	2003
Cash on hand	7,071	6,510
Balance with the National Bank	7,963	8,210
Time deposit with the National Bank	12,500	7,093
Accrued interest	2	-
Total cash and balances with the National Bank	27,536	21,813

The balances with the National Bank as of 31 December 2004 and 2003 include BYR 7,470 million and BYR 8,204 million, respectively, which represent the minimum reserve deposits required by the National Bank. The Bank is required to maintain the certain level of reserve balance all times.

As of 31 December 2004 the time deposit with the National Bank of the Republic of Belarus was denominated in USD and was bearing interest rate of 6%. As of 31 December 2003 it was denominated in BYR and was bearing interest rate of 17%.

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

	2004	2003
Cash and balances with the National Bank	27,536	21,813
Loans and advances to banks in OECD countries	2,082	1,692
Precious metals	259	153
	29,877	23,658
Less minimum reserve deposit with the National Bank	(7,470)	(8,204)
Total cash and cash equivalents	22,407	15,454

11. LOANS AND ADVANCES TO BANKS, LESS ALLOWANCE FOR LOAN LOSSES

Loans and advances to banks comprise:

	2004	2003
Loans to banks	26,082	24,171
Advances to banks	5,088	22,045
Interest accrued	7	15
	31,177	46,231
Less allowance for loan losses	(66)	(263)
Total loans and advances to banks	31,111	45,968

Movements in allowances for loan losses for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

As of 31 December 2004 and 2003, the advances to banks included fixed amounts of BYR 334 million and BYR 377 million, respectively, placed with HSBC Bank (Belgium) as a guarantee deposit on operations with Europay plastic cards.

As of 31 December 2004 and 2003, the advances to banks include fixed amounts of BYR 54 million and BYR 62 million, respectively, placed with Commerzbank as a security against letters of credit issued by the Bank for its customers.

As of 31 December 2004 and 2003 the Bank had 3 and 4 exposures totalling BYR 20,095 million and BYR 24,544 million, respectively, which individually exceeded 10% of the Bank's equity.

12. TRADING SECURITIES

As of 31 December 2004 and 2003 included in trading securities were:

	2004	**2003**
Long-term government bonds (“GDO”)	12,039	1,486
Short-term government bonds (“GKO”)	882	7,953
Bills of exchange of the JSC “Beltransgaz“	-	2
Total trading securities	12,921	9,441

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

GDOs are Belarusian Rouble denominated government securities bearing coupon income and with maturity of one year that are issued by the Ministry of Finance of the Republic of Belarus.

13. LOANS AND ADVANCES TO CUSTOMERS, LESS ALLOWANCE FOR LOAN LOSSES

Loans and advances to customers comprise:

	2004	**2003**
Originated loans	104,987	93,903
Net investment in finance leases	8,051	5,478
	113,038	99,381
Accrued interest	136	370
Less allowance for loan losses	(3,118)	(3,562)
Total loans and advances to customers	110,056	96,189

Movements in allowances for loan losses for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

Loans and advances to customers by type of collateral were as follows:

	2004	2003
Loans collateralized by equipment	39,761	36,875
Loans collateralized by goods in turnover	30,401	28,278
Loans collateralized by real estate	13,982	11,914
Loans collateralized by corporate guarantees	8,502	6,171
Loans collateralized by liens	7,554	-
Loans collateralized by cash	2,017	1,375
Loans collateralized by other types of collateral	4,803	4,872
Unsecured loans	6,018	9,896
Total loans and advances to customers	113,038	99,381

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

As of 31 December 2004 and 2003 the Bank had 1 and 7 loans totalling BYR 3,975 million and BYR 38,714 million, respectively, which individually exceeded 10% of the Bank's equity.

Analysis by sector	2004	2003
Manufacturing	60,005	66,516
Trading	20,229	13,677
Individuals	9,829	2,222
Transport	9,593	-
Leasing companies	4,833	11,826
Construction	2,534	45
Other	6,015	5,095
Total loans and advances to customers	113,038	99,381

The components of net investment in finance leases as of 31 December 2004 and 2003 are as follows:

	2004	2003
Minimum lease payments	9,682	6,244
Less: unearned finance income	(1,631)	(766)
Net investment in finance leases	8,051	5,478

The amount of future minimum lease payments due from customers under finance leases as of 31 December 2004 and 2003 are as follows:

	2004	2003
Not later than one year	1,549	1,384
Later than one year and not later than five years	8,133	4,860
Minimum lease payments	9,682	6,244

14. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

As of 31 December 2004 the Bank had purchased GDOs amounting to BYR 250 million under agreement to resell them within one month.

As of 31 December 2003 the Bank had purchased GKOs amounting to BYR 1,194 million under agreements to resell them within one month.

15. SECURITIES AVAILABLE FOR SALE

Securities available for sale comprise:

	2004	2003
Promissory notes of Belarusian banks	3,929	1,726
Certificates of deposit of Belarusian banks	2,504	-
Promissory notes issued by the National Bank of the Republic of Belarus	-	138
Bonds issued by Belarusian enterprises	-	229
Eurobonds of "Gazinvestfinance B.V."	-	3,082
Equity securities available for sale	217	122
Accrued interest	-	72
Total securities available for sale	6,650	5,369

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

As of 31 December 2004, included into promissory notes portfolio is BYR 3,437 million notes of JSC "Belagroprombank" (Belarus). Interest rate on these notes comprised 29%.

As of 31 December 2003, included into promissory notes portfolio were BYR 831 million notes of JSC "Priorbank" (Belarus). These notes were not interest bearing with original maturity of 1 month.

Certificates of deposit of Belarusian banks in the Bank's portfolio are Belarusian Rouble denominated debt securities of JCS "Belinvestbank" with maturity within 1 month. Interest rate on these certificates comprised 26%.

Promissory notes of the National Bank of the Republic of Belarus are US dollar denominated debt securities issued in 2001 with maturity of 3 years from the date of issue and interest rate of 6% per annum. These notes were redeemed by the National Bank of the Republic of Belarus in 2004.

Eurobonds of "Gazinvestfinance B.V." are Euro denominated bonds issued in 2002 by a subsidiary of ZAO "Gazprombank" (Russia) with maturity of 3 years and coupon rate of 9.75% per annum.

16. FIXED AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION

Tangible and intangible assets comprise:

	Buildings	Computers	Vehicles and equipment	Construction in progress	Intangible assets	Total
At cost:						
31 December 2003	11,205	3,483	5,221	1,718	238	21,865
Additions	45	539	931	285	78	1,878
Transfers	1,365	-	-	(1,365)	-	-
Disposals	-	(34)	(86)	-	(5)	(125)
31 December 2004	12,615	3,988	6,066	638	311	23,618
Accumulated depreciation:						
31 December 2003	1,859	1,081	1,640	-	80	4,660
Charge for the period	103	391	547	-	19	1,060
Disposals	-	(29)	(73)	-	(3)	(105)
31 December 2004	1,962	1,443	2,114	-	96	5,615
Net book value						
31 December 2004	10,653	2,545	3,952	638	215	18,003
Net book value						
31 December 2003	9,346	2,402	3,581	1,718	158	17,205

17. OTHER ASSETS, LESS ALLOWANCE FOR LOSSES

Other assets less allowance for losses comprise:

	2004	2003
Taxes receivable, other than income tax	1,821	1,373
Property purchased for leasing to clients	835	-
Other debtors	817	1,201
Prepaid expenses	299	216
Other	384	641
	4,156	3,431
Less allowance for losses on other assets (Note 5)	(76)	(108)
Total other assets	4,080	3,323

18. DEPOSITS FROM BANKS

Deposits from banks comprise:

	2004	2003
Time deposits	27,236	21,539
Demand deposits	4,411	15,547
Loan received under EBRD credit line	17,084	14,825
Accrued interest	183	149
Total deposits from banks	48,914	52,060

The Bank was certified to participate in the credit line of the European Bank for Reconstruction and Development ("EBRD") to support small and medium size enterprises in the Republic of Belarus. As of 31 December 2004 and 2003 the Bank had granted loans to customers on a number of investment projects under the EBRD credit line totalling USD 5,096 thousand and USD 4,306 thousand, respectively. The interest rate on this facility is LIBOR plus 4 %. Maturities of individual tranches range from 3 to 7 years. The Bank bears all credit risks on loans granted to customers in relation to this line.

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2004	2003
Time deposits	38,741	47,655
Repayable on demand	72,004	53,583
Accrued interest	558	631
Total customer accounts	111,303	101,869

As of 31 December 2004 and 2003 customer accounts of BYR 584 million and BYR 153 million, respectively, were held as security deposits against letters of credit.

As of 31 December 2004 and 2003 the balances of one customer totalling BYR 4,340 million and BYR 19,234 million exceeded 10% of the Bank's equity.

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	2004	2003
Discount or interest bearing promissory notes	152	3,745
Interest free promissory notes	28	4,119
Accrued interest on debt securities issued	2	10
Total debt securities issued	182	7,874

Discount on the promissory notes is amortized over the life of the note and is recorded in interest expense on debt securities issued using the effective interest rate method.

As of 31 December 2004 and 2003 interests rates on promissory notes denominated in foreign currency ranged from 5% to 6%, interest rate on the promissory notes denominated in Belarusian Roubles was 18% per annum, and maturity of most of these securities was up to 3 months.

Maturity of non-interest bearing notes is within 1 month from respective reporting dates.

21. OTHER LIABILITIES

Other liabilities comprise:

	2004	2003
Taxes payable, other than income tax	528	1,075
Provision for losses on guarantees (Note 5)	125	129
Accrued expenses	120	357
Advances received	15	16
Liability on derivative financial instruments	272	130
Other	528	58
Total other liabilities	1,588	1,765

Liability on derivative financial instruments as of 31 December 2004 and 2003 comprised the following:

	2004	2003
Claims on forward agreements	46,696	26,904
Obligations on forward agreements	(46,968)	(27,034)
Fair value	(272)	(130)

22. SUBORDINATED DEBT

	Maturity date	Interest rate	2004
Subordinated loan from Gazprombank (Russia)	2011	LIBOR+6%	10,850
Accrued interest expenses			38
Total subordinated debt			10,888

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

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

23. SHARE CAPITAL

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

As of 1 January 2004 in the statutory accounts the Bank had certain reserves, representing adjustments to share capital contributions calculated based on changes in foreign exchange rates in the amount of BYR 10,480 million, and effect of statutory property revaluation in the amount of BYR 4,317 million, calculated in accordance with Belarusian accounting rules. In November 2004 the Bank has increased the statutory value of share capital by BYR 14,797 million by reducing the balances on statutory accounts referred to above.

The amount of this adjustment increased the statutory nominal value of issued share capital to the level, which does not exceed the historical value of contributions received from shareholders, as restated for the effects of hyperinflation. Because share capital has been already restated for the effects of inflation in these financial statements, as required by IAS 29, no additional adjustments were made to the carrying amount of share capital.

This adjustment was made in the form of share issue, 14,649,175,878 common shares and 147,555,856 of preference shares were distributed among shareholders proportionally to their existing shares.

As of 31 December 2003 the issued capital of the Bank consisted of 5,595,272,850 common shares and 56,359,162 preference shares all with a par value of BYR 1 (historical cost).

As of 31 December 2004 and 2003 the share capital amounted to BYR 28,213 million.

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

During the year 2004 dividends were paid in the amount of BYR 816 million (amount restated for hyperinflation), including BYR 808 million on common shares and BYR 8 million on preference shares.

On 25 March 2005 a shareholders' meeting authorised payment of dividends in the year 2005 in the amount of BYR 935 million, including BYR 926 million on common shares and BYR 9 million on reference shares.

The Bank has not bought back and is not currently holding any of its own shares.

24. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

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

As of 31 December 2004 and 2003, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	2004		**2003**	
	Nominal Amount	**Risk Weighted Amount**	**Nominal Amount**	**Risk Weighted Amount**
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	4,934	2,467	6,031	1,206
Letters of credit and other transaction related contingent obligations	584	-	153	6
Commitments on credits and unused credit lines	18,664	3,643	9,664	-
Total contingent liabilities and credit commitments	24,182	6,110	15,848	1,212

The Bank has made a provision of BYR 125 million and BYR 129 million against commitments under guarantees issued as of 31 December 2004 and 2003, respectively.

Capital commitments **-** The Bank had no material commitments for capital expenditures outstanding as of 31 December 2004 and 2003.

Operating lease commitments - Where the Bank is the lessee, the future minimum lease payments under non cancellable premises operating leases are as follows:

	2004	**2003**
Not later than 1 year	375	491
Later than 1 year and not later than 5 years	773	296
Total operating lease commitments	1,148	787

Insurance - During the year ended 2003, the Bank's premises were insured BYR 325 million. During the year ended 2004, the Bank's premises were not insured.

Legal proceedings - From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Pensions and retirement plans - Employees receive pension benefits from the Republic of Belarus in accordance with the laws and regulations of the country. As of 31 December 2004 and 2003, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Legislation - Belarusian commercial legislation and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of legislation may differ from that of the authorities, transactions may be challenged by the authorities, and as result the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax and other payments, and therefore no additional provisions were made in the financial statements. Past fiscal years remain open to review by the authorities.

25. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24, are those counterparties that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Bank has significant influence and which are neither subsidiaries nor joint ventures of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

	2004		2003	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans and advances to banks, gross	1,563	31,177	6,560	46,231
Allowance for loans and advances to banks	-	(66)	(37)	(263)
Loans and advances to customers, gross	1,822	113,174	2,473	99,751
Allowance for loans and advances to customers	(35)	(3,118)	(88)	(3,562)
Trading securities	-	12,921	2	9,441
Securities available for sale	-	6,650	3,082	5,369
Deposits from banks	10,853	48,914	5,828	52,060
Customer deposits	39,553	111,303	19,371	101,869
Subordinated loan	10,888	10,888	-	-
Guarantees issued	22	4,934	25	6,031

During the years ended 31 December 2004 and 2003 the Bank originated advances and loans to banks and customers - related parties amounting to BYR 940,447 million and BYR 521,626 million, respectively, and received loans repaid of BYR 945,389 million and BYR 519,230 million, respectively.

During the years ended 31 December 2004 and 2003 the Bank received deposits and advances from banks and customers - related parties of BYR 4,349,224 million and BYR 1,334,996 million, respectively, and repaid deposits and advances totalling BYR 4,329,872 million and BYR 1,312,622 million, respectively.

In 2004 the Bank received subordinated loan from CJSC “Gazprombank”, Russia in the amount of USD 5 million.

Included in the profit and loss account for the years ended 31 December 2004 and 2003 are the following amounts on transactions with related parties:

	2004		2003	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	357	22,438	1,213	24,203
Interest expense	(1,096)	(11,163)	(424)	(11,791)
Fees and commission income	2,109	10,479	1,599	10,217
Fees and commission expense	(2)	(1,256)	(12)	1,209
Net gain on dealing in securities	(10)	3,290	113	2,860
Other operating gains	-	757	(951)	481

Transactions with related parties entered by the Bank during the years ended 31 December 2004 and 2003 and outstanding as of 31 December 2004 and 2003 were mostly made in the normal course of business and under arm-length conditions.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2004 and 2003 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

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

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

Trading securities - Trading securities are stated at fair value determined with reference to an active market.

Securities available for sale - Debt securities available for sale are stated at fair value.

Fair value of debt and equity securities available for sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities management estimation of the fair value was used.

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

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

Deposits from banks - The carrying amount of demand deposits is a reasonable estimate of their fair value, as interest rates on these instruments approximate the market rates.

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

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

Subordinated debt - The carrying amount of subordinated debt approximates its fair value, as it was received in 2004 and the interest rate approximates the market rate.

27. REGULATORY MATTERS

The Basle Committee on banking supervision guidelines recommends that a bank maintains minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus the Bank's provisions for the principal risks on condition that the total provision for possible loan losses does not exceed 1.25% of the risk weighted assets.

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

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

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

Capital amounts and ratios	Actual Amount (in BYR million)	Amount for capital adequacy purposes (in BYR million)	Ratio for capital adequacy purposes	Minimum Required Ratio
At 31 December 2004				
Total capital	37,991	48,879	31.20%	8 %
Tier 1 capital	37,991	37,991	24.25%	4 %
At 31 December 2003				
Total capital	37,087	38,395	36.70%	8 %
Tier 1 capital	37,087	37,087	35.40%	4 %

28. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Liquidity risk

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

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

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined (incl. allowance for losses)	2004 Total
ASSETS							
Cash and balances with the National Bank	12,500	-	-	-	-	-	12,500
Loans and advances to banks, less allowance for loan losses	26,129	4	17	6	-	(66)	26,090
Loans and advances to customers, less allowance for loan losses	8,491	16,500	55,314	32,733	-	(3,114)	109,924
Securities available for sale	5,946	322	-	-	-	-	6,268
Total interest bearing assets	53,066	16,826	55,331	32,739	-	(3,180)	154,782
Cash and balances with the National Bank	7,566	-	-	-	-	7,470	15,036
Precious metals	259	-	-	-	-	-	259
Loans and advances to banks, less allowance for loan losses	4,967	-	54	-	-	-	5,021
Trading securities	9,716	889	308	2,008	-	-	12,921
Loans and advances to customers, less allowance for loan losses	136	-	-	-	-	(4)	132
Securities purchased under agreements to resell	250	-	-	-	-	-	250
Securities available for sale	24	-	200	-	-	158	382
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	-	18,003	18,003
Other assets, less allowance for losses	1,920	1,219	52	965	-	(76)	4,080
Total non-interest bearing assets	24,838	2,108	614	2,973	-	25,551	56,084
TOTAL ASSETS	77,904	18,934	55,945	35,712	-	22,371	210,866
LIABILITIES							
Deposits from banks	17,146	1,396	12,128	13,650	-	-	44,320
Customer accounts	6,794	7,353	13,144	10,398	1,052	-	38,741
Debt securities issued	88	57	-	-	7	-	152
Other liabilities	122	150	-	-	-	-	272
Subordinated loan	-	-	-	-	10,850	-	10,850
Total interest bearing liabilities	24,150	8,956	25,272	24,048	11,909	-	94,335
Deposits from banks	4,548	-	46	-	-	-	4,594
Customer accounts	72,562	-	-	-	-	-	72,562
Debt securities issued	30	-	-	-	-	-	30
Other liabilities	588	115	364	4	-	245	1,316
Subordinated debt	38	-	-	-	-	-	38
Total non-interest bearing liabilities	77,766	115	410	4	-	245	78,540
TOTAL LIABILITIES	101,916	9,071	25,682	24,052	11,909	245	172,875
Interest sensitivity gap	28, 916	7,870	30,059	8,691	(11,909)		
Cumulative interest sensitivity gap	28, 916	36,786	66,845	75,536	63,627		
Cumulative interest sensitivity gap as a percentage of total assets	14%	17%	32%	36%	30%		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined (incl. allowance for losses)	2003 Total
ASSETS							
Cash and balances with the National Bank	7,093	-	-	-	-	-	7,093
Loans and advances to banks, less allowance for loan losses	9,110	493	2,345	740	-	(96)	12,592
Loans and advances to customers, less allowance for loan losses	10,948	18,515	54,236	15,002	679	(3,550)	95,830
Securities available for sale	1,121	167	138	3,082	-	-	4,508
Total interest bearing assets	28,272	19,175	56,719	18,824	679	(3,646)	120,023
Cash and balances with the National Bank	6,516	-	-	-	-	8,204	14,720
Precious metals	153	-	-	-	-	-	153
Loans and advances to banks, less allowance for loan losses	33,543	-	-	-	-	(167)	33,376
Trading securities	9,441	-	-	-	-	-	9,441
Loans and advances to customers, less allowance for loan losses	370	-	-	-	-	(11)	359
Securities purchased under agreements to resell	1,194	-	-	-	-	-	1,194
Securities available for sale	503	7	229	-	-	122	861
Fixed and intangible assets, less accumulated depreciation	-	-	-	12,003	5,202	-	17,205
Other assets, less allowance for losses	1,695	1,064	648	-	24	(108)	3,323
Total non-interest bearing assets	53,415	1,071	877	12,003	5,226	8,040	80,632
TOTAL ASSETS	81,687	20,246	57,596	30,827	5,905	4,394	200,655
LIABILITIES							
Deposits from banks	27,703	5,180	4,648	13,207	999	-	51,737
Customer accounts	7,449	8,872	28,534	2,760	40	-	47,655
Debt securities issued	979	2,152	573	-	41	-	3,745
Other liabilities	1	-	-	-	13	-	14
Total interest bearing liabilities	36,132	16,204	33,755	15,967	1,093	-	103,151
Deposits from banks	323	-	-	-	-	-	323
Customer accounts	54,214	-	-	-	-	-	54,214
Debt securities issued	4,129	-	-	-	-	-	4,129
Other liabilities	1,218	95	308	1	-	129	1,751
Total non-interest bearing liabilities	59,884	95	308	1	-	129	60,417
TOTAL LIABILITIES	96,016	16,299	34,063	15,968	1,093	129	163,568
Interest sensitivity gap	(7,860)	2,971	22,964	2,857	(414)		
Cumulative interest sensitivity gap	(7,860)	(4,889)	18,075	20,932	20,518		
Cumulative interest sensitivity gap as a percentage of total assets	-4%	-2%	9%	10%	10%		

Practically all assets and liabilities of the Bank are fixed interest rate bearing.

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

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

Liquidity risk of derivative financial instruments

Analysis by types of derivatives' contracts as of 31 December 2004 and 2003 is presented in the table below:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	2004 BYR mln
Receivable under forward deals	40,270	6,426	-	-	-	-	46,696
Payable under forward deals	(40,392)	(6,576)	-	-	-	-	(46,968)
Net position on derivative financial instruments	(122)	(150)	-	-	-	-	(272)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	2003 BYR mln
Receivable under forward deals	22,040	4,864	-	-	-	-	26,904
Payable under forward deals	(22,126)	(4,908)	-	-	-	-	(27,034)
Net position on derivative financial instruments	(86)	(44)	-	-	-	-	(130)

Interest rate risk

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

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

		2004			2003	
	BYR	USD, EUR	Other currencies	BYR	USD, EUR	Other currencies
ASSETS						
Loans and advances to banks	16.6%	9.0%	-	29.2%	6.0%	6.4%
Loans and advances to customers	20.6%	10.2%	17.0%	33.2%	13.0%	15.0%
Securities available for sale	20-36%			15.0%	5.0%	-
LIABILITIES						
Deposits from banks	20.0%	7.0%	10.5%	28.1%	5.9%	8.0%
Customer accounts	17.3%	7.5%	10.7%	31.8%	9.0%	8.0%
Debt securities issued	3.8%	1.5%	-	12.0%	3.0%	4.0%
Subordinated debt		9.0%				

Currency risk

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

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

	BYR	USD 1USD= 2,170 BYR	EUR 1EUR= 2,955.65 BYR	RUR 1 RUR = 77.91 BYR	Other currencies	Undefined (incl. allowance for losses)	2004 Total
ASSETS							
Cash and balances with the National Bank	23,632	1,829	893	1,137	45	-	27,536
Precious metals	-	-	-	-	259	-	259
Loans and advances to banks, less allowance for loan losses	25,985	1,957	1,145	1,933	157	(66)	31,111
Trading securities	12,921	-	-	-	-	-	12,921
Loans and advances to customers, less allowance for loan losses	17,578	72,225	20,354	3,017	-	(3,118)	110,056
Securities purchased under agreements to resell	250	-	-	-	-	-	250
Securities available for sale	6,650	-	-	-	-	-	6,650
Fixed and other intangible assets, less accumulated depreciation	18,003	-	-	-	-	-	18,003
Other assets, less allowance for losses	3,778	139	140	45	54	(76)	4,080
TOTAL ASSETS	108,797	76,150	22,532	6,132	515	(3,260)	210,866
LIABILITIES							
Deposits from banks	4,061	39,320	2,649	2,884	-	-	48,914
Customer accounts	71,004	29,278	6,133	4,843	45	-	111,303
Debt securities issued	87	95	-	-	-	-	182
Other liabilities	140	288	442	26	175	517	1,588
Subordinated debt	-	10,888	-	-	-	-	10,888
TOTAL LIABILITIES	75,292	79,869	9,224	7,753	220	517	172,875
OPEN BALANCE SHEET POSITION	33,505	(3,719)	13,308	(1,621)	295		

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

	BYR	USD 1USD= 2,170 BYR	EUR 1EUR= 2,955.65 BYR	RUR 1 RUR = 77.91 BYR	Other currencies	2004 Total
Receivable under forward deals	-	28,341	-	18,355	-	46,696
Payable under forward deals	(10,954)	(18,432)	(3,545)	(14,037)	-	(46,968)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(10,954)	9,909	(3,545)	4,318	-	(272)
TOTAL OPEN POSITION	11,597	16,099	6,218	7,015	295	

	BYR	USD 1USD= 2,156 BYR	EUR 1EUR= 2,695.22 BYR	RUR 1 RUR = 73.19 BYR	Other currencies	Undefined (incl. allowance for losses)	2003 Total
ASSETS							
Cash and balances with the National Bank	18,536	1,963	603	706	5	-	21,813
Precious metals	-	-	-	-	153	-	153
Loans and advances to banks, less allowance for loan losses	17,626	8,085	1,678	18,581	261	(263)	45,968
Trading securities	9,441	-	-	-	-	-	9,441
Loans and advances to customers, less allowance for loan losses	24,632	58,491	9,040	7,588	-	(3,562)	96,189
Securities purchased under agreements to resell	1,194	-	-	-	-	-	1,194
Securities available for sale	2,077	138	3,154	-	-	-	5,369
Fixed and other intangible assets, less accumulated depreciation	17,205	-	-	-	-	-	17,205
Other assets, less allowance for losses	2,647	13	51	720	-	(108)	3,323
TOTAL ASSETS	93,358	68,690	14,526	27,595	419	(3,933)	200,655
LIABILITIES							
Deposits from banks	15,117	34,689	1,876	378	-	-	52,060
Customer accounts	46,268	31,776	6,314	17,318	193	-	101,869
Debt securities issued	7,636	238	-	-	-	-	7,874
Other liabilities	696	292	266	511	-	-	1,765
TOTAL LIABILITIES	69,717	66,995	8,456	18,207	193	-	163,568
OPEN BALANCE SHEET POSITION	23,641	1,695	6,070	9,388	226		

The following table presents analysis of currency risk on derivative contracts as of 31 December 2003:

	BYR	USD 1USD= 2,156 BYR	EUR 1EUR= 2,695.22 BYR	RUR 1 RUR = 73.19 BYR	Other currencies	2003 Total
Receivable under forward deals	10,090	11,881	4,933	-	-	26,904
Payable under forward deals	(12,038)	(4,780)	-	-	(10,216)	(27,034)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(1,948)**	**7,101**	**4,933**	**-**	**(10,216)**	**(130)**
TOTAL OPEN POSITION	**21,693**	**8,796**	**11,003**	**9,388**	**(9,990)**	

Credit risk

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

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

Geographical concentration

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

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

	Belarus	CIS	OECD countries	Other countries	Undefined (incl. allowance for losses)	2004 Total
ASSETS						
Cash and balances with the National Bank	27,536	-	-	-	-	27,536
Precious metals	259	-	-	-	-	259
Loans and advances to banks, less allowance for loan losses	26,525	2,131	2,470	51	(66)	31,111
Trading securities	12,921	-	-	-	-	12,921
Loans and advances to customers, less allowance for loan losses	113,174	-	-	-	(3,118)	110,056
Securities purchased under agreements to resell	250	-	-	-	-	250
Securities available for sale	6,650	-	-	-	-	6,650
Fixed and other intangible assets, less accumulated depreciation	18,003	-	-	-	-	18,003
Other assets, less allowance for losses	4,156	-	-	-	(76)	4,080
TOTAL ASSETS	209,474	2,131	2,470	51	(3,260)	210,866
LIABILITIES						
Deposits from banks	20,736	22,709	3,316	2,153	-	48,914
Customer accounts	110,376	927	-	-	-	111,303
Debt securities issued	182	-	-	-	-	182
Other liabilities	1,588	-	-	-	-	1,588
Subordinated debt	-	10,888	-	-	-	10,888
TOTAL LIABILITIES	132,882	34,524	3,316	2,153	-	172,875
NET BALANCE SHEET POSITION	76,592	(32,393)	(846)	(2,102)		

	Belarus	CIS	OECD countries	Other countries	Undefined (incl. allowance for losses)	2003 Total
ASSETS						
Cash and balances with the National Bank	21,813	-	-	-	-	21,813
Precious metals	153	-	-	-	-	153
Loans and advances to banks, less allowance for loan losses	23,076	20,633	2,131	391	(263)	45,968
Trading securities	9,441	-	-	-	-	9,441
Loans and advances to customers, less allowance for loan losses	99,751	-	-	-	(3,562)	96,189
Securities purchased under agreements to resell	1,194	-	-	-	-	1,194
Securities available for sale	2,287	3,082	-	-	-	5,369
Fixed and other intangible assets, less accumulated depreciation	17,205	-	-	-	-	17,205
Other assets, less allowance for losses	3,431	-	-	-	(108)	3,323
TOTAL ASSETS	178,351	23,715	2,131	391	(3,933)	200,655
LIABILITIES						
Deposits from banks	29,914	17,989	25	4,132	-	52,060
Customer accounts	100,942	927	-	-	-	101,869
Debt securities issued	7,874	-	-	-	-	7,874
Other liabilities	1,765	-	-	-	-	1,765
TOTAL LIABILITIES	140,495	18,916	25	4,132	-	163,568
NET BALANCE SHEET POSITION	37,856	4,799	2,106	(3,741)		

29. UNCERTANTIES

***Economy of the Republic of Belarus* -** The economy of the Republic of Belarus continues to be affected by high rates of taxation, inflation and significant regulation of economy. Laws and regulations affecting the business environment in the Republic of Belarus are subject to rapid changes. The economic stability depends to a large extent on the efficiency of the measures taken by the Government of Belarus and other actions beyond the Bank's control. The recoverability of the Bank's loans and advances to domestic commercial banks and customers and the ability of the Bank to maintain or pay its debts as they mature, as well as the future operations of the Bank are heavily dependent on future direction of the economic policy of the Government of the Republic of Belarus.

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