Joint Stock Company "Belgazprombank"
Consolidated Financial Statements

Year ended 31 December 2006
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 at 31 December 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Bank for the year 31 December 2005 were audited by other auditors, whose report dated 3 April 2006, expressed an unqualified opinion.

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 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

27 April 2007

CONSOLIDATED BALANCE SHEET
As of 31 December 2006

(Millions of Belarusian roubles)

	Notes	2006	2005 (Restated)
Assets			
Cash and cash equivalents	5	**80,114**	40,946
Trading securities	6	**59,156**	54,491
Amounts due from the National Bank of the Republic of Belarus	7	**10,496**	8,050
Amounts due from credit institutions	8	**2,054**	54
Loans to customers	9	**324,815**	199,834
Investment securities	10	**753**	216
Property and equipment	13	**21,466**	18,039
Intangible assets	14	**987**	366
Other assets	15	**6,841**	5,490
Total assets		**506,682**	327,486
Liabilities			
Amounts due to the National Bank of the Republic of Belarus	16	**22,885**	16,770
Amounts due to credit institutions	17	**177,989**	91,038
Amounts due to customers	18	**202,489**	133,100
Amounts due to international financial institutions	19	**31,083**	19,620
Debt securities issued	20	**110**	5,156
Income tax liabilities	11	**1,847**	981
Other liabilities	15	**1,521**	1,473
		437,924	268,138
Subordinated debt	21	**21,448**	21,520
Total liabilities		**459,372**	289,658
Equity	22		
Share capital		**34,124**	34,124
Retained earnings		**13,186**	3,704
Total equity		**47,310**	37,828
Total equity and liabilities		**506,682**	327,486

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

Babariko V.D Chairman of the Board

Pivovar T.M. Chief Accountant

27 April 2007

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2006

(Millions of Belarusian roubles)

	Notes	2006	2005 (Restated)
Interest income			
Loans to customers		**41,565**	22,991
Securities		**5,042**	4,037
Amounts due from credit institutions		**1,819**	1,858
Other		**81**	179
		48,507	29,065
Interest expense			
Amounts due to credit institutions		**(18,223)**	(8,726)
Amounts due to customers		**(6,252)**	(5,969)
Debt securities issued		**(123)**	(380)
Other		**(19)**	-
		(24,617)	(15,075)
Net interest income		**23,890**	13,990
Impairment of interest earning assets	12	**(3,399)**	(2,028)
Net interest income after impairment of interest earning assets		**20,491**	11,962
Fee and commission income		**13,006**	13,016
Fee and commission expense		**(1,773)**	(1,237)
Net fee and commission income	24	**11,233**	11,779
Gains less losses from trading securities		**272**	2,103
Gains less losses from foreign currencies		**8,434**	652
Other income		**1,602**	651
Other non-interest income		**10,308**	3,406
Salaries and benefits	25	**(16,397)**	(11,543)
Depreciation and amortization	13, 14	**(1,704)**	(1,428)
Other operating expenses	25	**(8,175)**	(6,369)
Impairment of other assets and provisions		**(38)**	167
Taxes other than income tax		**(2,296)**	(2,144)
Other non-interest expenses		**(28,610)**	(21,317)
Loss on net monetary position		**–**	(1,601)
Profit before income tax expense		**13,422**	4,229
Income tax expense	11	**(2,979)**	(4,231)
Profit / (loss) for the year		**10,443**	(2)

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2006

(Millions of Belarusian roubles)

	Share capital	*Retained earnings*	*Total equity*
31 December 2004 (as previously reported)	30,470	9,596	40,066
Effect of restatement of property and equipment	–	(1,860)	(1,860)
Effect of restatement of deferred tax liabilities	–	610	610
31 December 2004 (restated - Note 2)	30,470	8,346	38,816
Dividends paid	–	(986)	(986)
Increase of share capital from retained earnings	3,654	(3,654)	–
Loss for the year	–	(2)	(2)
31 December 2005 (restated - Note 2)	34,124	3,704	37,828
Profit for the year	**–**	**10,443**	**10,443**
Revaluation of available-for-sale securities		**83**	**83**
Dividends paid	**–**	**(1,044)**	**(1,044)**
31 December 2006	**34,124**	**13,186**	**47,310**

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2006

(Millions of Belarusian roubles)

	Notes	2006	2005 (Restated)
Cash flows from operating activities			
Net profit/(loss) for the year		**10,443**	(2)
Adjustments for:			
Depreciation and amortisation		**1,704**	1,428
Provision for impairment		**3,437**	1,861
Fair value re-measurement		**(4)**	59
Deferred income tax (credit)/expense		**445**	103
Net gain from disposal of property and equipment and intangible assets		**(173)**	(52)
Cash flow from operating activities before changes in operating assets and liabilities		**15,852**	3,397
Net (increase)/decrease in operating assets			
Trading securities		**(4,665)**	(33,357)
Amounts due from National Bank of the Republic of Belarus		**(2,446)**	10,300
Amounts due from credit institutions		**(2,000)**	26,339
Loans to customers		**(125,630)**	(82,489)
Securities available-for-sale		**(471)**	-
Other assets		**(1,391)**	(1,298)
Net increase /(decrease) in operating liabilities			
Amounts due to National Bank of the Republic of Belarus		**6,219**	2,160
Amounts due to credit institutions		**84,417**	53,894
Amounts due to customers		**68,469**	12,759
Amounts due to international financial institutions		**11,463**	16,580
Other liabilities		**410**	(751)
Net cash flow provided by (used in) operating activities		**50,227**	7,534
Cash flows from investing activities			
Purchases of fixed and intangible assets		**(5,928)**	(2,470)
Proceeds from sale of fixed assets		**349**	273
Net cash flow used in investing activities		**(5,579)**	(2,197)
Cash flows from financing activities			
Proceeds from debt securities issued		**-**	19,775
Redemption of debt securities issued		**(5,046)**	(14,878)
Dividends paid		**(1,044)**	(986)
Net cash flow (used in) provided by financing activities		**(6,090)**	3,911
Effect of exchange rate changes and monetary losses on cash and cash equivalents		610	153
Change in cash and cash equivalents		**39,168**	9,401
Cash and cash equivalents at 1 January	5	**40,946**	31,545
Cash and cash equivalents at 31 December	5	**80,114**	40,946
Supplemental information:			
Income taxes paid		**2,113**	3,339
Interest paid		**11,721**	13,531
Interest received		**24,767**	28,753

The accompanying notes on pages 5 to 35 are an integral part of these consolidated financial statements.

(Millions of Belarusian roubles)

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 CJSC "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 at 31 December 2006, the following shareholders owned more than 5% of the outstanding shares:

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

JSC "Gazprom" is the ultimate parent of the Bank.

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 2.

The Bank operates under a general banking license #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 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 which include securities designated at fair value through profit or loss are measured at fair value.

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 "Financial Instruments: Recognition and Measurement": Financial Guarantees", effective for annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under the amended IAS 39, financial guarantee contracts are recognized initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 "Revenue".

The adoption of the amendment did not have a significant impact on the Bank's consolidated financial statements.

(Millions of Belarusian roubles)

2. Basis of preparation (continued)

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 “Financial Instruments: Disclosures”;
Amendment to IAS 1 “Presentation of financial Statements” – “Capital Disclosures”;
IFRIC 8 “Scope of IFRS 2”;
IFRIC 9 “Reassessment of Embedded Derivatives”;
IFRIC 10 “Interim Financial Reporting and Impairment”;
IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”.

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank’s consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7. These will enable users of the consolidated financial statements to evaluate the significance of the Bank’s financial instruments, the nature and extent of risks arising from those financial instruments, and the Bank’s objectives, policies and processes for managing capital.

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” in full. This standard requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. In applying IAS 29, the Bank has used conversion factors derived from the Belarusian consumer price index (“CPI“), published by the State Committee on Statistics. The general level of inflation for 2005 was 8%.

The indices used to restate amounts in the consolidated financial statements, based on 2005 prices (31 December 2005 = 100) for the years ended 31 December 2005 and the respective conversion factors are:

Year	*Index*	*Conversion factors*	*Year*	*Index*	*Conversion factors*
1991	247.52	38,331,617.54	1999	351.20	586.05
1992	1,659.01	15,486,270.82	2000	207.50	282.43
1993	2,096.63	933,464.58	2001	146.12	193.29
1994	2,059.70	45,320.41	2002	134.79	143.40
1995	343.96	13,176.07	2003	125.35	114.40
1996	139.30	9,458.77	2004	114.41	107.96
1997	163.11	5,799.02	2005	107.96	100.00
1998	281.75	2,058.21			

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.

Subsidiary

The consolidated financial statements include the following subsidiary:

2006

Subsidiary	*Ownership %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
BGPB Depository	100%	Belarus	January 2005	Depository institution	January 2005

The effect of the financial position of the subsidiary as of 31 December 2006 and 2005, its financial performance and its cash-flows for the years then ended was insignificant for the consolidated financial statements of the Bank. The restated cost of investment in this subsidiary is separately presented in other assets. The subsidiary is in the process of liquidation.

(Millions of Belarusian roubles)

2. Basis of preparation (continued)

Reclassifications

The following reclassifications have been made to 2005 balances to conform to the 2006 presentation.

Previously reported	*Amount*	*As reclassified*
Cash and balances with the NBRB	8,050	Amounts due from NBRB / Obligatory reserves with the NBRB
Amounts due from credit institutions/ Current accounts with other credit institutions	22,440	Cash and cash equivalents/ Current accounts with other credit institutions
Amounts due from credit institutions/Loans under repurchase agreements	2,854	Cash and cash equivalents/Reverse repurchase agreements with credit institutions up to 90 days
Securities held at fair value through profit or loss/Equity securities	216	Investment securities/ Available-for-sale
Securities held at fair value through profit or loss/Equity securities	26	Other assets/Investments in subsidiaries
Amount due from credit institutions/Loans and advances to banks	3,950	Cash and cash equivalents/Time deposits with credit institutions up to 90 days
Amounts due to credit institutions/Time deposits	16,481	Amounts due to the National Bank
Other liabilities/Taxes payable	524	Tax liabilities
Other liabilities/Payable to the National Bank	289	Amounts due to the National Bank
Income tax asset	232	Other assets/ Income tax asset
Other assets/Other	94	Intangible assets
Other assets/Other	219	Property, equipment and computer software/CIP

Prior year restatements

During 2006 the Bank identified prior period errors in its application of IAS 29, Financial Reporting in Hyperinflationary Economies, with respect to calculation of the inflation-adjusted carrying amounts of property and equipment. Details supporting the historic cost, acquisition date and depreciation rates of these assets were found to have errors, and this affected the balances as previously reported and the corresponding deferred tax liability. The errors relate to periods prior to and including the year ended 31 December 2004. They subsequently also affect depreciation expense, the gain on disposal of property and equipment and tax expense recorded in 2005. In accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the Bank has retrospectively restated assets, liabilities and equity as at 31 December 2004 for the cumulative effect of these errors and adjusted comparative information at 31 December 2005. Restatements have also been made to the consolidated statement of income for 2005. The restatement entries were as follows:

Type of Restatement	*Amount of restatement*	*Account affected*	*Account as previously reported*	*Account after restatement*
Restatement to Consolidated Statement of Changes in Equity at 31 December 2004				
Restatement of property and equipment	1,860	Property, equipment and computer software (decrease)	19,443	17,583
Restatement of deferred tax liabilities	610	Deferred tax liability/asset (decrease)	964	354
Restatement of retained earnings	1,250	Retained earnings (decrease)	9,596	8,346
Restatement to Consolidated Balance Sheet at 31 December 2005				
Restatement of property and equipment	1,870	Property and equipment (decrease)	19,962	18,092
Restatement of deferred tax liabilities	491	Deferred tax liability (decrease)	948	457
Restatement of retained earnings	1,379	Retained earnings (decrease)	5,083	3,704

(Millions of Belarusian roubles)

2. Basis of preparation (continued)

Prior year restatements (continued)

Type of Restatement	*Amount of restatement*	*Account affected*	*Account as previously reported*	*Account after restatement*
Restatement to Consolidated Statement of Income for the year ended 31 December 2005				
Restatement of depreciation charge	75	Depreciation and amortisation charge (increase)	1,353	1,428
Restatement of income tax expense	119	Income tax expense (increase)	4,112	4,231
Restatement of gain on disposal of property and equipment	65	Other operating expenses/net result from disposal of fixed assets (decrease)	6,434	6,369

The consolidated balance sheet at 31 December 2005 has also been corrected to separately disclose other assets and other liabilities:

Restatement of other assets	183	Balance sheet: Other assets/assets arising on fair value recognition of derivatives	–	183
Restatement of other liabilities	183	Balance sheet: Other liabilities / liabilities arising on fair value recognition of derivatives	150	333

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 statement of income.

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.

(Millions of Belarusian roubles)

3. Summary of accounting policies (continued)

Financial assets

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.

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 or designated by the Bank as at fair value through profit or loss 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 statement of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated statement of income when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 three 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 statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement of income.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(Millions of Belarusian roubles)

3. Summary of accounting policies (continued)

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 statement of income. 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, swaps and options in the foreign exchange market. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured 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 statement of income 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 if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

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

Borrowings, which include amounts due to the NBRB, amounts due to credit institutions, amounts due to customers, debt securities issued, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income 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 statement of income.

(Millions of Belarusian roubles)

3. Summary of accounting policies (continued)

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 statement of income 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.

Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the consolidated statement of income.

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 the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for loan impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the consolidated statement of income.

(Millions of Belarusian roubles)

3. Summary of accounting policies (continued)

Allowances for impairment of financial assets (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 statement of income.

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 Belarusian statutory legislation 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)

3. Summary of accounting policies (continued)

Taxation (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 restated cost, using the consumer price index, less accumulated depreciation and any accumulated impairment in value. 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:

	Years
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 at 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.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Software development costs (relating to the design and testing of new or substantially improved software) are recognised as intangible assets only when the Bank can demonstrate the technical feasibility of completing the software so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other software development costs are recognised as an expense as incurred.

Amounts due to the NBRB, international financial institutions, credit institutions and to customers

Amounts due to the NBRB, international financial institutions, credit institutions and to customers are initially recognised in accordance with the recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest rate method.

(Millions of Belarusian roubles)

3. Summary of accounting policies (continued)

Debt securities issued

Debt securities issued represent promissory notes and certificates of deposit issued by the Bank to its customers. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

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 shares and non-redeemable preference shares with discretionary dividends 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. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

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.

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Loan fees relating to long term financing are recognized as an adjustment to the effective yield of the debt. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Non-interest expenses are recognised at the time the transaction occurs.

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 statement of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at 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 2006 and 2005 were 2,140 and 2,152 Belarusian roubles to 1 US dollar, respectively.

(Millions of Belarusian roubles)

4. Significant accounting estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have certain risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

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 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:

	2006	*2005*
Cash on hand	**13,141**	8,981
Current accounts with the National Bank of the Republic of Belarus	**14,528**	520
Current accounts with other credit institutions	**28,600**	22,440
Time deposits with the National Bank of the Republic of Belarus up to 90 days	**5,500**	2,201
Time deposits with credit institutions up to 90 days	**18,345**	3,950
Reverse repurchase agreements with credit institutions up to 90 days	**–**	2,854
Cash and cash equivalents	**80,114**	40,946

As at 31 December 2006, BYR 17,816 (2005 – BYR 1,933) was placed on current accounts with six (2005 - seven) internationally recognised OECD banks, who are the main counterparties of the Bank in performing international settlements. Time deposits are presented by short-term loans with local banks.

In 2005, the Bank entered into repurchase and reverse repurchase agreements with Belarusian banks. The securities pledged under these agreements are Belarusian Government securities and promissory notes of local banks.

6. Trading securities

Trading securities owned comprise:

	2006	*2005*
Belarusian Government securities (GKOs and GDOs)	**56,623**	38,161
Short-term bonds of the National Bank (KO)	**-**	6,187
Belarusian bank deposit certificates	**-**	7,526
Belarusian bank promissory notes	**-**	2,617
Listed Russian equity securities	**2,533**	-
Trading securities	**59,156**	54,491

The interest rates and maturity of these securities are as follows:

	2006		*2005*	
	%	*Maturity*	*%*	*Maturity*
Belarusian Government securities (GKOs and GDOs)	**10%-11%**	**2007**	8%-17%	2006-2007
Short-term bonds of the National Bank (KO)	**-**	**-**	9%-10%	2006
Belarusian bank deposit certificates	**-**	**-**	12%-16%	2006
Belarusian banks promissory notes	**-**	**-**	13%-15%	2006

(Millions of Belarusian roubles)

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

As of 31 December 2006 and 2005 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 an interest earning cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw this deposit is significantly restricted by statutory legislation.

8. Amounts due from credit institutions

As at 31 December 2006, BYR 2,000 was placed in deposit with a local bank and BYR 54 (2005 - BYR 54) was placed in deposit with one internationally recognised OECD bank, which is one of the main counterparties of the Bank in performing international settlements. This amount was pledged as a security against letters of credit issued by the Bank for its customers.

9. Loans to customers

Loans to customers comprise:

	2006	*2005*
Loans to customers	**285,639**	185,478
Finance lease receivables	**30,926**	17,203
Promissory notes	**-**	161
Factoring	**16,728**	2,121
	333,293	204,963
Less – Allowance for loan impairment (Note 12)	**(8,478)**	(5,129)
Loans to customers	**324,815**	199,834

As of 31 December 2006, the Bank had a concentration of loans represented by BYR 75,260 due from the ten largest third party entities (23% of gross loan portfolio) (2005 - BYR 43,962 or 21%). An allowance of BYR 5,233 (2005 – BYR 1,449) was recognized against these loans.

Loans have been extended to the following types of customers:

	2006	*2005*
Private companies	**250,170**	152,372
State companies, budget or local authorities	**6,925**	14,288
Individuals	**75,764**	38,056
Employees	**434**	247
	333,293	204,963

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

	2006	*2005*
Trading and catering enterprises	**103,096**	43,631
Manufacturing	**86,304**	78,409
Individuals	**76,198**	38,303
Construction	**19,888**	3,763
Lease companies	**10,474**	11,654
Transport	**9,873**	13,746
Agriculture	**512**	685
Telecommunication and information services	**181**	256
Real estate	**281**	2,040
Utilities	**183**	385
Other	**26,303**	12,091
	333,293	204,963

(Millions of Belarusian roubles)

9. Loans to customers (continued)

The finance lease receivables may be analyzed as follows:

	2006	*2005*
Not later than 1 year	**14,997**	6,312
Later than 1 year and not later than 5 years	**27,669**	15,962
Gross finance lease receivables:	**42,666**	22,274
Unearned future finance income on finance leases	**(11,740)**	(5,071)
Net investment in finance leases	**30,926**	17,203

10. Investment securities

Available for sale securities comprise the following:

	2006	*2005*
Units in investment funds	**537**	-
Unquoted equity instruments	**216**	216
Available for sale securities	**753**	216

As at 31 December 2006 units in investment funds (investing in equity securities) were represented by the funds placed with one Russian investment company.

11. Taxation

The corporate income tax expense comprises:

	2006	*2005*
Current tax charge	**2,534**	4,128
Deferred tax expense	**445**	103
Income tax expense	**2,979**	4,231

Belarusian legal entities must file individual tax declarations. In 2006 the income tax rate for banks (except for gains from transactions with state securities) was 26.82% (2005 – 32.80%).

Tax liabilities consist of the following:

	2006	*2005*
Current tax liabilities	**945**	524
Deferred tax liabilities	**902**	457
Tax liabilities	**1,847**	981

(Millions of Belarusian roubles)

11. Taxation (continued)

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:

	2006	*2005*
Income before tax	**13,422**	4,229
Statutory tax rate	**26.28%**	32.80%
Theoretical income tax expense at the statutory rate	**3,527**	1,387
Capital expenditure tax exemption	**(3,930)**	(617)
Amounts transferred to reserve fund	**-**	(1,402)
State securities non-taxable income	**(3,151)**	(2,308)
Non deductible expenditures:		
- salaries and related expenses	**3,956**	5,222
- taxes other than income tax	**248**	201
- depreciation and amortization	**-**	867
- depreciation and amortization	**969**	-
- depreciation and amortization	**588**	21
Effect of changes in interest rates	**(30)**	-
Other permanent differences	**802**	860
Income tax expense	**2,979**	4,231

Deferred tax assets and liabilities at 31 December comprise:

	2006	*2005*
Tax effect of deductible temporary differences		
Allowance for loans to customers	**1,403**	777
Fair value of derivative financial instruments	**-**	39
Other liabilities (provisions)	**339**	151
Deferred tax asset	**1,742**	967
Tax effect of taxable temporary differences		
Property and equipment	**948**	1,115
Accrued interest income	**1,323**	167
Other assets	**373**	142
Deferred tax liability	**2,644**	1,424
Deferred tax liability, net	**(902)**	(457)

12. Allowances for impairment

The movements in allowances for impairment of interest earning assets were as follows:

	Due from credit institutions	*Loans to customers*	*Total*
31 December 2004	71	3,367	3,438
Loss on net monetary position	(2)	(329)	(331)
Charge (reversal)	(69)	2,097	2,028
Write-offs	-	(6)	(6)
31 December 2005	**-**	**5,129**	**5,129**
Charge	**-**	**3,399**	**3,399**
Write-offs	**-**	**(50)**	**(50)**
31 December 2006	**-**	**8,478**	**8,478**

(Millions of Belarusian roubles)

12. Allowances for impairment (continued)

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

	Other assets	*Guarantees and commitments*	*Total*
31 December 2004	82	135	217
Reversal	(40)	(127)	(167)
Gain on net monetary position	(6)	(8)	(14)
31 December 2005	**36**	**-**	**36**
Charge	**38**	**-**	**38**
Write-offs	**-**	**-**	**-**
31 December 2006	**74**	**-**	**74**

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities. In accordance with the Belarusian legislation, loans may only be written off with the approval of the Board of Directors of the Bank and, in certain cases, with a respective decision of the Court.

13. Property and equipment

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

	Buildings	*Computers, office equipment and other fixed assets*	*Motor vehicles*	*Construction in progress*	*Total*
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**

(Millions of Belarusian roubles)

13. Property and equipment (continued)

The movement of property, plant and equipment during 2005 was as follows:

	Buildings	*Computers, office equipment and other fixed assets*	*Motor vehicles*	*Construction in progress*	*Total*
Cost					
31 December 2004	12,265	8,469	1,907	574	23,215
Additions	811	890	98	415	2,214
Disposals	(22)	(315)	(391)	-	(728)
Transfer	254	140	-	(394)	-
31 December 2005	13,308	9,184	1,614	595	24,701
Accumulated depreciation					
31 December 2004	(1,081)	(3,985)	(720)		(5,786)
Charge	(221)	(899)	(265)		(1,385)
Disposals	11	207	291		509
31 December 2005	(1,291)	(4,677)	(694)		(6,662)
Net book value:					
31 December 2004	11,184	4,484	1,187	574	17,429
31 December 2005	12,017	4,507	920	595	18,039

14. Intangible assets

The movements of intangible assets during 2006 were as follows:

	Licenses	*Software*	*Total*
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**

The movements of intangible assets during 2005 were as follows:

	Licenses	*Software*	*Total*
Cost			
31 December 2004	66	130	196
Additions	195	61	256
Disposals	-	(3)	(3)
31 December 2005	261	188	449
Accumulated amortisation			
31 December 2004	-	(41)	(41)
Charge	(19)	(24)	(43)
Disposals	-	1	1
31 December 2005	(19)	(64)	(83)
Net book value:			
31 December 2004	66	89	155
31 December 2005	242	124	366

(Millions of Belarusian roubles)

15. Other assets and liabilities

Other assets comprise:

	2006	*2005*
Taxes receivable other than income taxes	**3,402**	1,947
Prepaid expenses	**989**	205
Other debtors	**792**	1,348
Property and other assets held for disposal	**703**	33
Tangible assets purchased for leasing to clients	**299**	1,031
Precious metals	**168**	157
Assets arising from fair value recognition of derivatives	**28**	183
Investment in subsidiary	**26**	26
Income tax asset	**-**	232
Other	**508**	364
Other assets	**6,915**	5,526
Less allowance for impairment of other assets (Note 12)	**(74)**	(36)
Total	**6,841**	5,490

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:

	2006	*2005*
Payables for tangible assets	**679**	682
Accrual for unused vacations by employees	**296**	-
Advances received	**239**	66
Accrued expenses	**53**	10
Liability arising from fair value recognition of derivatives	**27**	333
Other	**227**	382
Other liabilities	**1,521**	1,473

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

As of 31 December 2006, amounts due to the National Bank of the Republic of Belarus were BYR 22,885 (2005 – BYR 16,481) 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 USD and as of 31 December 2006 amounted to USD 10,693,925 (2005 – USD 7,658,457). The European Bank for Reconstruction and Development (“EBRD”) originally provided the funds to the Republic of Belarus. The Agreement is unsecured and bears interest at LIBOR plus an agreed-upon rate subject to quarterly review; at 31 December 2006, the aggregate interest rate was 9.41% (at 31 December 2005 - 8.1%). 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.

As of 31 December 2005, amounts due to the National Bank of the Republic of Belarus include also BYR 289 of settlements for precious metals.

17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2006	*2005*
Current accounts	18,640	2,884
Syndicated loan from banks (Syndicate 1)	47,237	32,599
Syndicated loan from banks (Syndicate 2)	43,592	-
Time deposits and loans	67,476	52,701
Repurchase agreements	1,044	2,854
Amounts due to credit institutions	**177,989**	91,038

(Millions of Belarusian roubles)

17. Amounts due to credit institutions (continued)

Syndicate 1 was signed in November 2005 by the Bank 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 in the amount of USD 15,000,000 allowing dual-currency disbursement in USD and EUR 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. As of 31 December 2006 interest rates were 9.02% for USD and 7.22% for EUR. The final maturity date of the facility is 8 November 2007.

Syndicate 2 was signed in September 2006 by the Bank in the amount of USD 14,000,000 and EUR 5,000,000 for 1 year with a 1 year extension option. The Mandated Lead Arrangers are one OECD bank and two CIS banks, the facility agent is one OECD bank. As of 31 December 2006 interest rates were of 9.12% for USD and 7.46% for EUR. The facility matures on 13 September 2007.

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

As of 31 December 2006 the Bank included in amounts due to credit institutions repurchase agreements amounting to BYR 1,044 (2005 - BYR 2,854) with maturity of one month. As of 31 December 2006 such agreements were secured by short term government bonds. As of 31 December 2005 such agreements were secured with short term government bonds which were received as collateral for reverse repurchase agreements (see Note 6).

18. Amounts due to customers

The amounts due to customers include the following:

	2006	*2005*
Current accounts	**115,082**	71,101
Time deposits	**87,407**	61,999
Amounts due to customers	**202,489**	133,100
Held as security against letters of credit	**2,131**	1,768
Held as security against guarantees	**448**	-

Included in time deposits are deposits of individuals of BYR 49,012 (2005 - BYR 44,222).

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

	2006	*2005*
Corporate and individual entrepreneurs	**141,365**	80,964
Individuals	**60,629**	51,838
State bodies and budgetary organisations	**320**	223
Employees	**175**	75
Amounts due to customers	**202,489**	133,100

An analysis of customer accounts by sector follows:

	2006	*2005*
Individuals	**60,804**	51,913
Trade and public catering	**48,701**	24,035
Industry	**30,749**	25,896
General commercial activity	**19,276**	9,886
Insurance	**14,023**	6,117
Construction	**8,730**	7,366
Motor transport and road facilities	**3,639**	2,184
Other	**16,567**	5,703
Amounts due to customers	**202,489**	133,100

(Millions of Belarusian roubles)

19. Amounts due to international financial institutions

	2006	2005
Loan received under EBRD credit line	**20,039**	12,958
Loan received under IFC credit line	**11,044**	6,662
Amounts due to international financial institutions	**31,083**	19,620

IFC

In June 2005, the Bank concluded a loan agreement with IFC for USD 5 million. The purpose of the loan is to finance eligible small and medium enterprises as defined in the agreement. The loan is available in two tranches: “A” regular tranche and “B” stand-by tranche of USD 3 and 2 million, respectively. The “B” stand-by tranche is available only after tranche “A” has been disbursed in full. The “A” tranche bears interest at LIBOR plus 4.35% (9.87% at 31 December 2006, 8.37% at 31 December 2005). Both tranches were fully utilised as at 31 December 2006. As of 31 December 2005, only regular tranche “A” of USD 3 million was utilised. The “A” tranche is due in 6 semi-annual approximately equal instalments beginning in August 2007. The “B” tranche is due in 6 approximately equal semi-annual instalments. 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 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. The loans under the facility bear interest at LIBOR plus 4.0% commencing on the date of the disbursement. LIBOR is determined two London banking days prior to the first day of interest period. The loans had an interest rate of 9.61% at 31 December 2006 (2005 - 7.79%). As at 31 December 2006, the Bank had borrowed USD 1 million under loan “A” and USD 2 million under loan “B”. As at 31 December 2005, no amounts were drawn down by the Bank under this agreement. 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 loans bear interest at LIBOR plus 4.5% which equalled 10.11% at 31 December 2006 (2005 - 8.29%) and have to be repaid in four equal instalments semi-annually commencing January 2008. Interest is due semi-annually on 12 January and 12 July. At 31 December 2006, the Bank had drawn down USD 6 million (2005 – USD 5.8 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.

20. Debt securities issued

Debt securities issued consisted of the following:

	2006	2005
Discount bearing bonds	**-**	2,559
Discount and interest bearing promissory notes	**-**	2,451
Non-interest bearing promissory notes	**110**	146
Debt securities issued	**110**	5,156

In March 2006 the Bank redeemed all issued discount bearing bonds.

(Millions of Belarusian roubles)

21. Subordinated debt

	Maturity date	*Interest rate*	*2006*	*2005*
Subordinated loan from CJSC "Gazprombank" (Russia)	2011	LIBOR+6%	**10,748**	10,760
Subordinated loan from CJSC "Gazprombank" (Russia)	2012	LIBOR+6%	**10,700**	10,760
Total subordinated debt			**21,448**	21,520

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 maturing in December 2011. The loan bears interest rate of 12-month USD LIBOR plus 6% per annum. Additional amount of USD 5 million was received in March 2005 with maturity in 2012.

22. Shareholders' equity

The total amount of authorised ordinary and preference shares is 250,044,863 (2005 – 250,044,863) and 25,816,955,137 (2005 – 25,816,955,137) respectively; 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.

23. Commitments and contingencies

Operating environment

Belarus continues to undergo political, economic, and social changes. 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. Furthermore, the Belarusian Government has not yet fully implemented the reforms necessary to create banking, judicial, taxation, and regulatory systems that usually exist in more developed markets. 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. In particular, the Bank's operations and the financial position of bank borrowers and customers are likely to be affected by the oil and gas price increases applicable to Belarus from 1 January 2007. Management believes that the negative impact of these energy price increases can be mitigated by certain economic policy measures taken by the Government and aimed at reduction of energy intensity of production, increase of foreign capital inflow into the country and development of financial markets.

The accompanying consolidated 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 consolidated 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.

(Millions of Belarusian roubles)

23. Commitments and contingencies (continued)

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 at 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.

Financial commitments and contingencies

As at 31 December the Bank's financial commitments and contingencies comprised the following:

	2006	*2005*
Credit related commitments		
Undrawn loan commitments	**36,607**	31,442
Guarantees	**18,739**	6,945
Letters of credit	**3,407**	2,439
	58,753	40,826
Lease commitments		
Not later than 1 year	**450**	205
Later than 1 year but not later than 5 years	**1,155**	448
Over 5 years	**227**	-
	1,832	653
Less – Cash held as security against letters of credit and guarantees	**(2,579)**	(1,768)
Financial commitments and contingencies	**58,006**	39,711

Insurance

As of 31 December 2006 and 2005 the Bank's premises were insured for BYR 1,047 and BYR 1,075, respectively.

(Millions of Belarusian roubles)

23. Commitments and contingencies (continued)

Derivatives

	2006			2005		
	Notional principal	Fair values Asset	Fair values Liability	Notional principal	Fair value Asset	Fair value Liability
Interest rate contracts (non-deliverable forwards)						
Forwards on Eurobonds – with foreign banks	**5,521**	**3**	**-**	-	-	-
Forwards on Treasury bonds – with foreign banks	**-**	**-**	**-**	6,303	166	-
Forwards on Treasury bonds – with foreign banks	**-**	**-**	**-**	4,024	-	(87)
Forwards on Eurobonds – with foreign banks	**-**	**-**	**-**	5,617	-	(169)
		3	**-**		166	(256)
Foreign exchange contracts (non-deliverable forwards)						
USD - BYR contracts – with foreign banks	**8,131**	**-**	**(19)**	-	-	-
USD - BYR contracts – with domestic banks	**2,140**	**-**	**-**	-	-	-
GBP - USD contracts – with foreign banks	**4,198**	**10**	**-**	-	-	-
GBP - USD contracts – with foreign banks	**2,099**	**-**	**(4)**	-	-	-
USD - GPB contracts – with foreign banks	**6,312**	**16**	**-**	-	-	-
USD - EUR contracts – with foreign banks	**1,411**	**1**	**-**	-	-	-
USD - RUR contracts – with foreign banks	**642**	**1**	**-**	-	-	-
EUR - USD contracts – with foreign banks	**15,495**	**-**	**(4)**	-	-	-
EUR - USD contracts – with foreign banks	**8,452**	**-**	**-**	-	-	-
RUR - USD contracts – with foreign banks	**-**	**-**	**-**	2,158	5	-
USD - RUR contracts – with foreign banks	**-**	**-**	**-**	2,582	-	(1)
EUR - USD contracts – with foreign banks	**-**	**-**	**-**	6,884	-	(17)
USD - BYR contracts – with foreign banks	**-**	**-**	**-**	3,228	12	-
USD - BYR contracts – with foreign banks	**-**	**-**	**-**	6,396	-	(59)
		28	**(27)**		17	(77)
		31	**(27)**		183	(333)

24. Net fee and commission income

Net fee and commission income comprises:

	2006	2005
Settlement operations	**9,945**	9,054
Currency conversion operations	**1,476**	3,374
Fees on transactions with other banks	**474**	298
Other	**1,111**	290
Fee and commission income	**13,006**	13,016
Settlement operations	**(1,508)**	(746)
Currency conversion operations	**(184)**	(350)
Other	**(81)**	(141)
Fee and commission expense	**(1,773)**	(1,237)
Net fee and commission income	**11,233**	11,779

(Millions of Belarusian roubles)

25. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

	2006	2005
Salaries and bonuses	**12,477**	8,778
Social security costs and other employment taxes	**3,920**	2,765
Salaries and benefits	**16,397**	**11,543**
Software expenses	**2,177**	838
Occupancy and rent	**1,222**	1,198
Legal and consultancy	**735**	924
Communications	**600**	533
Security	**525**	522
Transportation and car expenses	**415**	348
Expenses on guarantee fund	**345**	332
Other	**2,156**	1,674
Other operating expenses	**8,175**	**6,369**

26. Financial risk management policies

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

Credit Risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments by monitoring procedures such as regular analysis of the borrowers' financial standing and ability to meet repayment obligations. Limits on the level of credit risk by borrower and product are approved by the Credit Committee.

Where appropriate and in the case of most loans, the Bank obtains collateral. Such risks are monitored on an ongoing basis and subject to an annual or more frequent review.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored on a regular basis. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying consolidated financial statements and the disclosed financial commitments.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

(Millions of Belarusian roubles)

26. Financial risk management policies (continued)

Geographical concentration

The geographical concentration of the Bank’s assets and liabilities is set out below:

	2006				2005			
	Belarus	OECD	CIS and other foreign countries	Total	Belarus	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	**52,920**	**17,763**	**9,431**	**80,114**	26,309	1,928	12,709	40,946
Trading securities	**56,623**	**-**	**2,533**	**59,156**	54,491	-	-	54,491
Amounts due from National bank	**10,496**	**-**	**-**	**10,496**	8,050	-	-	8,050
Amounts due from credit institutions	**2,000**	**54**	**-**	**2,054**	-	54	-	54
Loans to customers	**324,815**	**-**	**-**	**324,815**	199,834	-	-	199,834
Investment securities	**-**	**-**	**537**	**537**	-	-	-	-
Other assets	**1,578**	**411**	**28**	**2,017**	3,294		183	3,477
	448,432	**18,228**	**12,529**	**479,189**	291,978	1,982	12,892	306,852
Liabilities								
Amounts due to National Bank	**22,885**	**-**	**-**	**22,885**	16,770	-	-	16,770
Amounts due to credit institutions	**37,075**	**69,913**	**71,001**	**177,989**	22,980	30,319	37,739	91,038
Amounts due to customers	**200,075**	**456**	**1,958**	**202,489**	131,329	148	1,623	133,100
Amounts due to international financial institutions	**-**	**31,083**	**-**	**31,083**	-	19,620	-	19,620
Debt securities issued	**110**	**-**	**-**	**110**	5,156	-	-	5,156
Subordinated debt	**-**	**-**	**21,448**	**21,448**	-	-	21,520	21,520
Other liabilities	**809**	**681**	**31**	**1,521**	1,290	-	183	1,473
	260,954	**102,133**	**94,438**	**457,525**	177,525	50,087	61,065	288,677
Net balance sheet position	**187,478**	**(83,905)**	**(81,909)**	**21,664**	114,453	(48,105)	(48,173)	18,175
Net off-balance sheet position	**54,148**	**3,066**	**1,539**	**58,753**	37,160	2,371	1,295	40,826

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

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.

(Millions of Belarusian roubles)

26. Financial risk management policies (continued)

Currency risk (continued)

The Treasury 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.

2006	*BYR*	*USD*	*EUR*	*RUR*	*Other foreign currencies*	*Total*
Assets:						
Cash and cash equivalents	**42,487**	**19,943**	**9,932**	**7,293**	**459**	**80,114**
Trading securities	**56,623**	**-**	**-**	**-**	**2,533**	**59,156**
Amounts due from National bank	**10,496**	**-**	**-**	**-**	**-**	**10,496**
Amounts due from credit institutions	**2,000**	**54**	**-**	**-**	**-**	**2,054**
Loans to customers	**52,899**	**214,013**	**52,639**	**5,264**	**-**	**324,815**
Investment securities	**-**	**-**	**-**	**537**	**-**	**537**
Other assets	**1,522**	**229**	**22**	**234**	**10**	**2,017**
	166,027	**234,239**	**62,593**	**13,328**	**3,002**	**479,189**
Liabilities						
Amounts due to National Bank	**-**	**22,885**	**-**	**-**	**-**	**22,885**
Amounts due to credit institutions	**15,555**	**94,293**	**66,011**	**2,130**	**-**	**177,989**
Amounts due to customers	**117,936**	**54,202**	**19,929**	**4,941**	**5,481**	**202,489**
Amounts due to international financial institutions	**-**	**31,083**	**-**	**-**	**-**	**31,083**
Debt securities issued	**110**	**-**	**-**	**-**	**-**	**110**
Subordinated debt	**-**	**21,448**	**-**	**-**	**-**	**21,448**
Other liabilities	**542**	**291**	**680**	**4**	**4**	**1,521**
	134,143	**224,202**	**86,620**	**7,075**	**5,485**	**457,525**
Net balance sheet position	**31,884**	**10,037**	**(24,027)**	**6,253**	**(2,483)**	**21,664**
Net off balance sheet position - derivatives	**(10,274)**	**(11,612)**	**22,522**	**(640)**	**-**	**(4)**
Net off balance sheet position – financial commitments and contingencies	**21,809**	**26,523**	**7,088**	**3,333**	**-**	**58,753**

2005	*BYR*	*USD*	*EUR*	*RUR*	*Other foreign currencies*	*Total*
Assets:						
Cash and cash equivalents	14,172	12,855	3,229	10,374	316	40,946
Trading securities	54,491	-	-	-	-	54,491
Amounts due from National bank	8,050	-	-	-	-	8,050
Amounts due from credit institutions	-	54	-	-	-	54
Loans to customers	29,890	134,099	30,618	5,227	-	199,834
Other assets	2,461	873	138	5	-	3,477
	109,064	147,881	33,985	15,606	316	306,852
Liabilities						
Amounts due to National Bank	289	16,481	-	-	-	16,770
Amounts due to credit institutions	12,002	45,328	30,711	2,997	-	91,038
Amounts due to customers	62,757	49,567	9,440	11,283	53	133,100
Amounts due to international financial institutions	-	19,620	-	-	-	19,620
Debt securities issued	3,061	2,095	-	-	-	5,156
Subordinated debt	-	21,520	-	-	-	21,520
Other liabilities	170	106	1,082	115	-	1,473
	78,279	154,717	41,233	14,395	53	288,677
Net balance sheet position	30,785	(6,836)	(7,248)	1,211	263	18,175
Net off balance sheet position - derivatives	(9,618)	3,020	6,874	(426)	-	(150)
Net off balance sheet position – financial commitments and contingencies	16,114	19,739	2,928	2,045	-	40,826

(Millions of Belarusian roubles)

26. Financial risk management policies (continued)

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 Treasury 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 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 Treasury prevents the allocation of attracted funds to the non-profitable assets.

The table below summarises the Bank's exposure to interest rate risk as at 31 December 2006 and 2005. Included in the table are the Bank's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or maturity dates.

2006	*On demand*	*Up to 1 month*	*1 month to 3 month*	*3 month to 1 year*	*1 year to 5 years*	*Over 5 years*	*Overdue*	*Total*
Assets:								
Cash and cash equivalents	47,298	32,424	392	-	-	-	-	80,114
Trading securities	56,623	-	-	2,533	-	-	-	59,156
Amounts due from National bank	-	-	-	-	-	10,496	-	10,496
Amounts due from credit institutions	-	54	100	267	1,600	33	-	2,054
Loans to customers	-	12,949	67,111	116,385	123,671	2,175	2,524	324,815
Investment securities	-	537	-	-	-	-	-	537
Other assets	168	196	399	1,228	26	-	-	2,017
	104,089	46,160	68,002	120,413	125,297	12,704	2,524	479,189
Liabilities								
Amounts due to National Bank	-	-	-	22,885	-	-	-	22,885
Amounts due to credit institutions	18,648	11,588	87,953	38,152	21,648	-	-	177,989
Amounts due to customers	118,361	13,725	14,211	22,586	25,700	7,906	-	202,489
Amounts due to international financial institutions	-	20,039	11,044	-	-	-	-	31,083
Debt securities issued	-	-	-	110	-	-	-	110
Subordinated debt	-	-	-	21,448	-	-	-	21,448
Other liabilities	296	293	471	273	172	16	-	1,521
	137,305	45,645	113,679	105,454	47,520	7,922	-	457,525
Total interest sensitivity gap	(33,216)	515	(45,677)	14,959	77,777	4,782	2,524	21,664

(Millions of Belarusian roubles)

26. Financial risk management policies (continued)

Interest rate risk (continued)

2005	*On demand*	*Up to 1 month*	*1 month to 3 month*	*3 month to 1 year*	*1 year to 5 years*	*Over 5 years*	*Overdue*	*Total*
Assets:								
Cash and cash equivalents	34,092	6,854	-	-	-	-	-	40,946
Trading securities	44,348	9,451	692	-	-	-	-	54,491
Amounts due from National bank	-	-	-		-	8,050	-	8,050
Amounts due from credit institutions	-	-	-	54	-	-	-	54
Loans to customers	-	25,981	21,372	75,614	74,086	845	1,936	199,834
Other assets	-	2,680	331	466	-	-	-	3,477
	78,440	44,966	22,395	76,134	74,086	8,895	1,936	306,852
Liabilities								
Amounts due to National Bank	-	289	-	16,481	-	-	-	16,770
Amounts due to credit institutions	1,004	16,629	5,905	53,209	14,291	-	-	91,038
Amounts due to customers	71,104	31,173	8,510	9,184	11,369	1,760	-	133,100
Amounts due to international financial institutions	-	12,958	6,662	-	-	-	-	19,620
Debt securities issued	-	2,431	-	2,693	32	-	-	5,156
Subordinated debt	-	-	-	21,520	-	-	-	21,520
Other liabilities	-	947	125	265	136	-	-	1,473
	72,108	64,427	21,202	103,352	25,828	1,760	-	288,677
Total interest sensitivity gap	6,332	(19,461)	1,193	(27,218)	48,258	7,135	1,936	18,175

At 31 December, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	2006			***2005***		
	BYR	***USD, EUR***	***Other foreign currencies***	***BYR***	***USD, EUR***	***Other foreign currencies***
Assets:						
Cash and cash equivalents	**0%-14%**	**0%-7.25%**	**-**	0%-5%	0%-3%	0%
Trading securities	**11%**	**-**	**-**	11%	-	-
Amount due from credit institutions	**10%**	**5%**	**-**	-	2%	-
Loans to customers	**14%**	**12%**	**14%**	18 %	10.5%	16%
Liabilities:						
Due to National Bank	**-**	**8%-9%**	**-**	-	9%	-
Due to credit institutions	**12%**	**6%-13%**	**4%**	9.4%	7.4%	10.3%
Due to customers	**0%-12.5%**	**1%-9.5%**	**4.5%**	12%	7.55%	7%
Due to international financial institutions	**-**	**8.9%**	**-**	-	7.6%	-
Subordinated debt	**-**	**11%**	**-**	-	10%	-
Debt securities issued	**-**	**-**	**-**	10%	6%	-

(Millions of Belarusian roubles)

26. Financial risk management policies (continued)

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.

Asset and Liability Management Committee 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 monetary assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

2006	*On demand*	*Up to 1 month*	*1 month to 3 month*	*3 month to 1 year*	*1 year to 5 years*	*Over 5 years*	*Overdue*	*Total*
Assets:								
Cash and cash equivalents	47,298	32,424	392	-	-	-	-	80,114
Trading securities	56,623	-	-	2,533	-	-	-	59,156
Amounts due from National bank	-	-	-	-	-	10,496	-	10,496
Amounts due from credit institutions	-	-	100	321	1,600	33	-	2,054
Loans to customers	-	13,883	38,255	126,063	142,042	2,126	2,446	324,815
Investment securities	-	-	-	537	-	-		537
Other assets	168	196	399	1,228	26	-	-	2,017
	104,089	46,503	39,146	130,682	143,668	12,655	2,446	479,189
Liabilities								
Amounts due to National Bank	-	-	-	3,457	19,428	-	-	22,885
Amounts due to credit institutions	18,68	13,075	15,008	112,717	18,541	-	-	177,989
Amounts due to customers	118,361	13,725	8,962	22,573	27,746	11,122		202,489
Amounts due to international financial institutions	-	921	398	1,776	27,988	-	-	31,083
Debt securities issued	-	-	110	-	-	-	-	110
Subordinated debt	-	-	-	-	10,748	10,700	-	21,448
Other liabilities	296	293	471	273	172	16	-	1,521
	137,305	28,014	24,949	140,796	104,623	21,838		457,525
Net position	(33,216)	18,489	14,197	(10,114)	39,045	(9,183)	2,446	21,664
Accumulated gap	(33,216)	(14,727)	(530)	(10,644)	28,401	19,218	21,664	

Amounts due to credit institutions at 31 December 2006 in the 3 months to 1 year category included a loan from a shareholder of USD 7,000,000 (BYR 14,980) for on-lending to SMEs. On 25 April 2007 the Bank repaid the loan. On 27 April 2007, the Bank and the shareholder entered into a new facility agreement in the amount of USD 7,000,000 for 5 years for the same purpose. This had a corresponding effect of improving the Bank's net liquidity position in the 3 months to 1 year category.

Amounts due to credit institutions for the amount of BYR 112,717, with maturity from 3 months to 1 year include BYR 43,592 of syndicated loan (Syndicate 2) with a one year extension option.

(Millions of Belarusian roubles)

26. Financial risk management policies (continued)

Liquidity risk (continued)

2005	*On demand*	*Up to 1 month*	*1 month to 3 month*	*3 month to 1 year*	*1 year to 5 years*	*Over 5 years*	*Overdue*	*Total*
Assets:								
Cash and cash equivalents	34,092	6,854	-	-	-	-	-	40,946
Trading securities	44,348	9,451	692	-	-	-	-	54,491
Amounts due from National bank	-	-	-	-	-	8,050	-	8,050
Amounts due from credit institutions	-	-	-	54	-	-	-	54
Loans to customers	-	16,652	23,959	80,571	75,782	934	1,936	199,834
Other assets	-	2,680	331	466	-	-	-	3,477
	78,440	35,637	24,982	81,091	75,782	8,984	1,936	306,852
Liabilities								
Amounts due to National Bank	-	289	-	4,709	11,772	-	-	16,770
Amounts due to credit institutions	1,004	30,040	7,490	33,432	19,072	-	-	91,038
Amounts due to customers	71,104	11,682	16,698	17,992	12,334	3,290	-	133,100
Amounts due to international financial institutions	-	360	149	-	19,111	-	-	19,620
Debt securities issued	-	2,431	-	2,693	32	-	-	5,156
Subordinated debt	-	-	-	-	-	21,520	-	21,520
Other liabilities	-	947	125	265	136	-	-	1,473
	72,108	45,749	24,462	59,091	62,457	24,810	-	288,677
Net position	6,332	(10,112)	520	22,000	13,325	(15,826)	1,936	18,175
Accumulated gap	6,332	(3,780)	(3,260)	18,740	32,165	16,239	18,175	

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.

27. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a large part of the Bank's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and the 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.

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

Amounts due from and due to credit institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and, consequently, the fair value approximates the carrying amounts. At 31 December 2006, the carrying value of amounts due from and due to credit institutions of BYR 2,054 and BYR 177,989 (31 December 2005 - BYR 54 and BYR 91,038) respectively, approximates their estimated fair value.

(Millions of Belarusian roubles)

27. Fair values of financial instruments (continued)

Loans to customers

Loans to customers are stated net of the allowance for impairment and approximate fair value based on the discounted amount of estimated future cash flows to be received. At 31 December 2006, the carrying value of loans to customers of BYR 324,815 (31 December 2005 - BYR 199,834) approximates their estimated fair value.

Amounts due to customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity. At 31 December 2006, the carrying value of amounts due to customers of BYR 202,489 (31 December 2005 – BYR 133,100) approximates their estimated fair value.

28. Related party transactions

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:

	2006			*2005*	
	Shareholders	*Companies under common control*	*Key management personnel*	*Shareholders and companies under common control*	*Key management personnel*
Due from credit institutions					
- current accounts (nostro)	**3,627**	**-**	**-**	5,727	-
- time deposits	**-**	**-**	**-**	-	-
	3,627		**-**	5,727	-
Loans to customers, gross	**-**	**-**	**434**	-	247
Amounts due to credit institutions					
- current accounts (loro)	**371**	**-**	**-**	782	-
- time deposits	**36,156**	**-**	**-**	15,064	-
	36,527	**-**	**-**	15,846	-
Amounts due to customers					
- current accounts	**2,293**	**2,359**	**-**	13,924	-
- time deposits	**-**	**3,099**	**175**	-	72
	2,293	**5,458**	**175**	13,924	72
Subordinated debt	**21,448**	**-**	**-**	21,520	-
Letters of credit, guarantees and commitments issued	**2,131**	**-**	**-**	17	-
Interest income					
- on due from credit institutions	**6**	**-**	**-**	3	-
- on loans to customers	**-**	**-**	**42**	3	10
	6	**-**	**42**	6	10
Interest expense					
- on due to credit institutions	**2,462**	**-**	**-**	815	-
- on due to customers	**78**	**90**	**16**	678	9
- on subordinated debt	**2,323**	**-**	**-**	1,781	-
	4,863	**90**	**16**	3,274	9

(Millions of Belarusian roubles)

28. Related party transactions (continued)

Compensation of key management personnel was comprised of the following:

	2006	*2005*
Salaries and other short-term benefits	**762**	270
Social security costs	**274**	97
Total key management compensation	**1,036**	367

29. Capital adequacy

The NBRB requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on BAS. As at 31 December 2006 and 2005, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2006 and 2005, was 18.1% and 20.9%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

30. Subsequent events

On 23 March 2007, the Bank's Shareholders' meeting declared dividends based on the results of 2006 financial year for the amount of BYR 2,814 million.

On 27 April 2007 the Bank and one of its shareholders entered into facility agreement in the amount of USD 7,000,000 for 5 years for on-lending to SMEs.