OPEN JOINT STOCK COMPANY "Belagroprombank"

Independent Auditors' Report

Financial Statements
Year Ended 31 December 2003

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of the Open Joint Stock Company "Belagroprombank":

We have audited the accompanying balance sheet of the Open Joint Stock Company "Belagroprombank" (the "Bank") as of 31 December 2003 and the related profit and loss account and statements of cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of 31 December 2002 and for the year then ended were not audited.

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

The accompanying financial statements do not contain comparative information for the year ended 31 December 2002. In our opinion, this represents a departure from International Financial Reporting Standards.

In our opinion, except for the omission of the presentation of comparative information for the year ended 31 December 2002, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2003, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Without further qualifying our opinion, we draw attention to the Note 16, disclosing the fact that due to the absence of a market for financial instruments alternative to machinery and housing loans granted to agricultural enterprises under the program of the Government of the Republic of Belarus on agricultural sector financing, there is a considerable degree of uncertainty surrounding the interest rate used to determine fair value of the loans and respective contributions to the share capital of the Bank.

Without further qualifying our opinion, we draw attention to the fact that at present there is a considerable degree of economic uncertainty in the Republic of Belarus. The recoverability of the Bank's assets, as well as financial positions of the Bank's debtors and consequently their ability to settle their liabilities, largely depend on the future direction of the economic policy of the Government of the Republic of Belarus.

Deloitte & Touche

17 June 2004

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003
(in millions of Belarusian Roubles)

	Notes	2003
Interest income	4,27	163,961
Interest expense	4,27	(85,866)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		78,095
Provision for loan losses	5	(74)
NET INTEREST INCOME		78,021
Net gain on trading securities	6	9,564
Net gain on foreign exchange operations		14,206
Fees and commission income	7	60,385
Fees and commission expense	7	(3,499)
Net gain on investment securities	8	1,141
Other income	9	1,792
NET NON-INTEREST INCOME		83,589
OPERATING INCOME		161,610
OPERATING EXPENSES	10,27	(114,486)
PROFIT BEFORE OTHER PROVISIONS AND LOSSES, INCOME TAXES AND LOSS ON NET MONETARY POSITION		47,124
Provision for losses on other transactions	5	(167)
PROFIT BEFORE INCOME TAXES AND LOSS ON NET MONETARY POSITION		46,957
Income tax expense	11	(23,406)
PROFIT BEFORE LOSS ON NET MONETARY POSITION		23,551
Loss on net monetary position due to inflation effect		(21,953)
NET PROFIT		1,598

On behalf of the Board

Chairman **Chief Accountant**

The notes on pages 7 to 33 form an integral part of these financial statements. The Independent Auditors’ Report is presented on page 1.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

BALANCE SHEET
AS OF 31 DECEMBER 2003
(in millions of Belarusian Roubles)

	Notes	2003
ASSETS:		
Cash and balances with the National Bank of the Republic of Belarus	12	149,732
Loans and advances to banks, less allowance for loan losses	13	31,879
Trading securities	14	53,314
Securities purchased under agreements to resell	15	1,446
Loans and advances to customers, less allowance for loan losses	16,27	564,548
Investment securities, less allowance for impairment	17	6,001
Fixed and intangible assets, less accumulated depreciation	18	99,255
Other assets	19	5,171
TOTAL ASSETS		911,346
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits from banks	20	74,423
Securities sold under agreements to repurchase	21	17,867
Customer accounts	22,27	381,800
Debt securities issued	23	39,483
Other liabilities	24	3,742
Total liabilities		517,315
SHAREHOLDERS' EQUITY:		
Share capital	25	498,466
Accumulated deficit		(104,435)
Total shareholders' equity		394,031
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		911,346
FINANCIAL COMMITMENTS AND CONTINGENCIES	26	12,046

On behalf of the Board

Chairman **Chief Accountant**

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OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003
(in millions of Belarusian Roubles)

	Share capital	Accumulated deficit	Total shareholders' equity
31 December 2002	286,395	(106,027)	180,368
Share capital increase	212,071	-	212,071
Net profit	-	1,598	1,598
Dividends paid for the year 2002	-	(6)	(6)
31 December 2003	498,466	(104,435)	394,031

On behalf of the Board

Chairman **Chief Accountant**

The notes on pages 7 to 33 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 1.

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2003
(in millions of Belarusian Roubles)

	Notes	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes and loss on net monetary position		46,957
Adjustments for:		
Provision for loan losses		74
Provision for guarantees		167
Amortization of discount on loans to customers		(3,823)
Fair value adjustment on investment securities available for sale		(34)
Net gain on disposal of investment securities available for sale		(1,107)
Depreciation expense on fixed and intangible assets		10,205
Loss on disposal of fixed and intangible assets		33
Net change in accruals		479
Accrued commission income		(324)
Cash flow from operating activities before changes in operating assets and liabilities		52,627
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Minimum reserve deposit with the National Bank of the Republic of Belarus		(13,261)
Loans and advances to banks		(22,673)
Securities purchased under agreements to resell		(1,415)
Loans and advances to customers		(187,840)
Other assets		(713)
Increase/(decrease) in operating liabilities:		
Deposits from banks		11,962
Securities sold under agreements to repurchase		13,238
Customer accounts		116,250
Other liabilities		(4,609)
Cash outflows from operating activities before income taxes		(36,434)
Income taxes paid		(23,406)
Net cash outflows from operating activities		(59,840)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed and intangible assets		(11,509)
Proceeds on sale of fixed and intangible assets		354
Sale of available for sale securities, net		6,912
Net cash outflows from investing activities		(4,243)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Share capital increase		212,071
Net proceeds from debt securities issued		22,951
Net cash inflows from financing activities		235,022

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)
(in millions of Belarusian Roubles)

	Notes	2003
NET INCREASE IN CASH AND CASH EQUIVALENTS		170,939
INFLATION EFFECT ON CASH (INCLUDING CHANGE IN VALUATION ALLOWANCES)		(33,207)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		54,310
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	12	192,042

Interest received and paid by the Bank in cash during the year ended 31 December 2003 amounted to BYR 160,510 million and BYR 86,003 million, respectively.

On behalf of the Board

Chairman **Chief Accountant**

The notes on pages 7 to 33 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 1.

1. ORGANISATION

Open Joint Stock Company "Belagroprombank" ("the Bank") was established on 11 February 1991 as a result of reorganization of the Belarusian Republic bank of the Agroprombank of the USSR. The Bank is incorporated in the Republic of Belarus as a joint stock commercial bank, in which the shareholders have limited liability.

The Bank's registered office is located on 24 Olshevsky Street, Minsk, Republic of Belarus.

The Bank provides the wide range of banking services to its clients, which are mainly Belarusian enterprises. The Bank's primary areas of operations include granting loans to the agricultural and other sectors, processing customer accounts and customer payments. The Bank operates as the government agent in the realization of various government programs including financing of agriculture and subsidized house building. The Bank has a general license, which allows it to maintain current accounts and attract demand and time deposits from private and corporate customers, carry out foreign currency operations in its own right and on behalf of its customers as well as licenses for transactions with securities.

As of 31 December 2003 the following shareholders owned the issued share capital of the Bank:

Shareholder	**%**
Ministry of Economy of the Republic of Belarus	86.88
Region Executive Committees	11.52
Other	1.60
Total	100.00

The Bank's organizational structure includes the Head Office and 132 branches throughout the Republic of Belarus.

As of 31 December 2003 the number of employees of the Bank was 6,421.

These financial statements were authorised for issue by the Chairman on behalf of the Board of Directors of the Bank on 14 June 2004.

2. BASIS OF PRESENTATION

Accounting basis - These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), except for non-disclosure of comparative information for 2002.

These financial statements are presented in millions of Belarusian Roubles ("BYR"), unless otherwise indicated. These financial statements are prepared on the accrual basis under the historical cost convention modified for the measurement at fair value of available for sale investment securities, financial assets and financial liabilities held for trading, and according to International Accounting Standard ("IAS") 29 "Financial Reporting in Hyperinflationary Economies".

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

The Bank has applied International Financial Reporting Standards in full for the first time in 2003 and applied retrospectively the Standards and Interpretations effective for the period of first-time application. The effect of such application is included in accumulated deficit in shareholders' equity of the Bank.

The economy of the Republic of Belarus is hyperinflationary. Under International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" the accompanying financial statements have been adjusted to reflect the effects of the diminution of the purchasing power of the Belarusian Rouble. Such hyperinflation adjustments have been made using the consumer price index ("CPI") calculated and published by the Ministry of Statistics and Analysis of the Republic of Belarus. The indices for the last five years were as follows:

Year	% change
2003	25%
2002	35%
2001	46%
2000	108%
1999	251%

All amounts in these financial statements, including corresponding figures, are stated in the measuring unit (i.e. Belarusian Rouble) current as of 31 December 2003. Monetary assets and liabilities as of 31 December 2003 are not restated because they are already expressed in the monetary unit current as of 31 December 2003. Non-monetary assets and liabilities, and shareholders' equity including share capital as of 31 December 2003 are restated by applying a relevant conversion factor. The effect of inflation on the Bank's net monetary position is recognized in the profit and loss account as a loss on net monetary position.

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

***Measurement currency* -** The measurement currency of these financial statements is the Belarusian Rouble ("BYR").

3. SIGNIFICANT ACCOUNTING POLICIES

***Investments in non-consolidated associated companies* -** Investments in corporate shares where the Bank owns more than 20% of the share capital and non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Bank intends to resell such investments in the nearest future, are accounted for at fair value or cost approximating fair value, or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides allowances for impairment, if necessary.

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

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

Cash and cash equivalents - Cash and cash equivalents include cash, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Belarus ("NB RB") with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD") with original maturity within 90 days, except for margin deposits for operations with plastic cards, as well as government debt securities included in trading portfolio and precious metals in vault, which may be converted to cash within a short period of time. For the purposes of determining cash flows, the minimum reserve deposit required by the NB RB is not included as a cash equivalent due to restrictions on its availability (Note 12).

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

Trading securities - Trading securities represent debt securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost, which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. When reliable market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. The fair value adjustment on trading securities is recognized in the profit and loss account for the period.

Repurchase and reverse repurchase agreements - The Bank enters into financial instrument sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business.

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

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

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gain on investment securities. The obligation to return them is recorded at fair value as a trading liability. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities is recognized as interest income or expense, accrued using effective interest method, during the period that the related transactions are open.

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

Loans granted by the Bank are initially recognized in accordance with the policy stated above. The difference between the nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued. It is recognized as an initial recognition adjustment discounted using market rates at inception and included in the profit and loss account. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

Write off of loans - Loans are written off against the allowance for loan losses in the case of the uncollectibility of loans and advances, including the repossession of collateral. Write off is made after all the required legal procedures are performed and the amount of loss is determined. In accordance with the statutory legislation, loans may only be written off with the approval of the Board of the Bank.

Non-accrual loans - Loans are placed on a non-accrual status when interest is delinquent for a period in excess of 30 days. Interest on such loans is accrued on respective off-balance sheet accounts. A non-accrual loan is restored to accrual status when all overdue amounts are repaid.

Allowance for losses - The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by previous experience.

The change in the allowance for loan losses is charged to profit and loss account and the total of the allowance for loan losses is deducted in arriving at loans and advances to customers and banks. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

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

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

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

Buildings	1-2.5%
Computer equipment	10-25%
Vehicles	10-14%
Office furniture & equipment	5-25%
Other assets	8-20%

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

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

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

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

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

Bank as lessor - The Bank presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

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

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

Bank as lessor - The Bank presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in the profit and loss account on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized 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 recognized as an expense in the profit and loss account in the period in which they are incurred.

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

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

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

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

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

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

Share capital - Share capital is recognized at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

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

Retirement and other benefit obligations - The Bank does not have any pension arrangements separate from 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. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

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

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

Foreign currency translation - Monetary assets and liabilities denominated in foreign currencies are translated into Belarusian Roubles at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for in Belarusian Roubles at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange transactions.

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

	31 December 2003
BYR/USD	2,156.00
BYR/EUR	2,695.22
BYR/RUR	73.19

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

Comparative information - As the Bank adopted IFRS in 2003 for the first time no comparative information for 2002 is provided in these financial statements.

4. NET INTEREST INCOME

Net interest income comprises:

	2003
Interest income	
Interest on loans and advances to customers	162,630
Interest on loans and advances to banks	1,246
Interest on debt securities	80
Other interest income	5
Total interest income	**163,961**
Interest expense	
Interest on customer accounts	63,418
Interest on deposits from banks	20,540
Interest on debt securities issued	1,908
Other interest expense	-
Total interest expense	**85,866**
Net interest income before provision for loan losses	**78,095**

5. ALLOWANCE FOR LOSSES AND IMPAIRMENT AND OTHER PROVISIONS

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

	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
31 December 2002	300	74,021	280	74,601
Provision/(Recovery)	364	(292)	2	74
Write-offs	-	(230)	-	(230)
Gain on net monetary position	(56)	(11,126)	(26)	(11,208)
31 December 2003	**608**	**62,373**	**256**	**63,237**

The movements in allowances for other transactions were as follows:

	Guarantees
31 December 2002	138
Provision	167
Gain on net monetary position	(46)
31 December 2003	**259**

Provisions for guarantees are recorded in other liabilities.

6. NET GAIN ON TRADING SECURITIES

Net gain on trading securities for the year ended 31 December 2003 comprises net gain on trading with debt securities.

7. FEES AND COMMISSION INCOME AND EXPENSE

Fees and commission income and expense comprise:

	2003
Fees and commission income:	
Operations with customers	53,448
Foreign exchange operations	4,286
Operations with securities	2,194
Operations with banks	427
Other operations	30
Total fees and commission income	**60,385**

	2003
Fees and commission expense:	
Operations with banks	3,058
Foreign exchange operations	339
Operations with securities	66
Operations with customers	35
Other operations	1
Total fees and commission expense	**3,499**

8. NET GAIN ON INVESTMENT SECURITIES

Net gain on investments securities includes results from operations with available for sale securities and comprises:

	2003
Net gain on derecognition of securities available for sale	1,107
Fair value adjustment on securities available for sale	34
Total net gain on investment securities	**1,141**

9. OTHER INCOME

Other income comprises:

	2003
Revenues from fines	366
Lease payments	192
Gain from fixed assets disposal	180
Revenue from consulting services	144
Revenue from recovery of assets previously written off	37
Other	873
Total other income	**1,792**

10. OPERATING EXPENSES

Operating expenses comprise:

	2003
Staff costs	46,305
Social security contributions	14,908
Taxes, other than income taxes	11,942
Depreciation	10,205
Rent, utilities and repairs	8,302
Security	6,548
Transportation	2,548
Office expenses	2,112
Software use fees	1,671
Communications	1,295
Professional services fees	1,017
Other	7,633
Total operating expenses	**114,486**

11. INCOME TAXES

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

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of salary and depreciation expenses and other expenses resulting from provisions of local tax regulations.

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

The tax rates used for the deferred tax calculation as of 31 December 2003 were 30% for republican tax and 4% for municipal tax. The 4% municipal tax was introduced in 2004 (rates were charged successively, combined effective rate used was 32.8%).

The tax effect of temporary differences as of 31 December 2003 comprises:

	2003
Deductible temporary differences:	
Loans to banks and customers	24,267
Fixed assets	20,804
Other assets	6,052
Provisions	259
Other liabilities	19
Total deductible temporary differences	51,401

	2003
Taxable temporary differences:	
Accrued interest and commission income	(3,779)
Intangible assets	(108)
Investment securities	(65)
Other assets	(45)
Total taxable temporary differences	(3,997)
Net deductible temporary differences	**47,404**
Deferred tax assets at the statutory rate (32.8%)	15,549
Less: valuation allowance	(15,549)
Net deferred tax asset	**-**

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

	2003
Profit before income taxes	**25,004**
Statutory effective tax rate	33.5%
Theoretical tax at the statutory effective tax rate	8,376
Tax effect of permanent differences	19,163
Effect of change in the effective tax rate from 33.5% to 32.8%	(332)
Change in valuation allowance	(3,801)
Income tax expense	**23,406**

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

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

	2003
Cash in vault	30,587
Balance with the National Bank of the Republic of Belarus	119,145
Total cash and balances with the National Bank of the Republic of Belarus	**149,732**

The balances with the National Bank of the Republic of Belarus as of 31 December 2003 include BYR 19,141 million, which represents the minimum reserve deposit required by the NB RB. The Bank is required to maintain the reserve balance at the NB RB at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	2003
Cash and balances with the NBRB	149,732
Loans and advances to banks in OECD countries	8,137
Trading securities	53,314
	211,183
Less minimum reserve deposit with the National Bank of the Republic of Belarus	(19,141)
Total cash and cash equivalents	**192,042**

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

Loans and advances to banks comprise:

	2003
Loans to banks	22,696
Advances to banks	9,782
Accrued interest income on loans and advances to banks	9
	32,487
Less allowance for loan losses	(608)
Total loans and advances to banks, less allowance for loan losses	**31,879**

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

As of 31 December 2003, the advances to banks include a fixed amount of BYR 216 million, placed with American Express Bank Ltd as a guarantee deposit on operations with travellers' cheques.

As of 31 December 2003, the advances to banks include a fixed amount of BYR 1,394 million, placed as security against letters of credit issued by the Bank.

14. TRADING SECURITIES

Trading securities comprise:

	2003
Short-term government bonds (GKO)	35,392
Long-term government bonds (GDO)	17,922
Total trading securities	**53,314**

Short-term government bonds ("GKO") are Belarusian Rouble denominated government securities with short-term maturities that are sold at discount to face value by the Ministry of Finance of the Republic of Belarus. The face value amounts to BYR 100 thousand.

Long-term government bonds ("GDO") are Belarusian Rouble denominated government securities with coupon income and maturity of 1 year that are issued by the Ministry of Finance of the Republic of Belarus. The face value amounts to BYR 1 million.

As of 31 December 2003 included in trading securities were GKO and GDO sold under repurchase agreements with other banks amounting to BYR 760 million and BYR 17,157 million, respectively. Repurchase agreements for GKO have maturity within four months, for GDO – within one month from the reporting date.

15. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

As of 31 December 2003 the Bank purchased GKO amounting to BYR 1,446 million under agreements to resell them within two months from the reporting date.

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

Loans and advances to customers comprise:

	2003
Originated loans	622,106
Net investment in finance leases	2,060
Accrued interest income on loans and advances to customers	2,755
	626,921
Less allowance for loan losses	(62,373)
Total loans and advances to customers, less allowance for loan losses	**564,548**

	2003
Loans collateralized by equipment and goods in turnover	341,998
Loans collateralized by guarantees of state bodies and local authorities	75,496
Loans collateralized by real estate	69,527
Loans collateralized by lien over receivables	4,729
Loans collateralized by cash	2,590
Loans collateralized by other types of collateral	864
Unsecured loans	128,962
Accrued interest income on loans and advances to customers	2,755
	626,921
Less allowance for loan losses	(62,373)
Total loans and advances to customers, less allowance for loan losses	**564,548**

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

As of 31 December 2003 included in loans and advances to clients are non-accrual loans amounting to BYR 18,189 million.

All loans were granted to companies registered and performing their business activities in the Republic of Belarus.

Analysis by industry	**2003**
Manufacturing	271,506
Agricultural	195,947
Trade	61,971
Construction	8,200
Individuals	2,556
Other	83,986
Accrued interest income on loans and advances to customers	2,755
	626,921
Less allowance for loan losses	(62,373)
Total loans and advances to customers, less allowance for loan losses	**564,548**

The Bank participates in the government programs on granting favourable loans to agricultural enterprises. Under the programs the Bank has granted loans for housing construction since 1996, and loans for the acquisition of agricultural machinery since 2003. These housing and machinery loans are granted at 5% and 4% annual interest rates, respectively. Funds for both programs were provided to the Bank by the Government. The funds provided for the housing loan program bear a 2% annual interest rate. The funds provided for machinery loan program are interest-free. These interest rates are significantly lower than the inflation rates in the Republic of Belarus. The machinery loans are granted with a maturity of 7 years. Before 2004 the housing loans were granted for up to a 12-year period. In accordance with the Decree of the President of the Republic of Belarus # 123 effective from 1 March 2004 the maturity of the housing loans outstanding on that date, as well as of newly originated housing loans was extended/set to 40 years. Since 1999 upon the decisions of the President and the Government of the Republic of Belarus the liabilities relating to the funds attracted from the Government have been periodically capitalized and treated as contributions by the state to the share capital of the Bank. The capitalizations were made based on respective resolutions of the Government of the Republic of Belarus.

In accordance with IAS 39 “Financial Instruments: Recognition and Measurement” the Bank initially measures loans originated at other than market terms at fair value and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using an estimate of the market interest rate at the date of relevant instrument’s inception. The date of inception of the financial instrument is the date of capitalization of the respective borrowings into share capital. Subsequent time-based accretion of the loans fair value is recognized as interest income in the profit and loss account. Unless the borrowings are capitalized into share capital, the originated loans and received borrowings are not recognized as assets and liabilities of the Bank as the Bank is not exposed to any credit risk in respect of loans granted.

Due to the absence of the market for long-term loans and other long-term financial instruments alternative to the loans granted under the above mentioned programs, there is a considerable degree of uncertainty surrounding the interest rate used for the discounting of these loans. The Bank made an estimate of the market interest rate for this financial instrument and used this rate for discounting the refinance rates of the National Bank of the Republic of Belarus at the dates of asset recognition plus 3%. After discounting, the fair value of these loans as of 31 December 2003 was BYR 98,826 million. The nominal value of the loans as of 31 December 2003 was BYR 408,809 million.

Share capital contributions made by means of the capitalization of the funds received by the Bank under these programs were recognized at the fair value of the respective loans as of the dates of capitalization.

Net investment in finance leases as of 31 December 2003 comprises the following:

	2003
Total minimum lease payments	2,963
Less: unearned finance income	(903)
Net investment in finance leases	**2,060**
Current portion	444
Long-term portion	1,616
Net investment in finance leases	**2,060**

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

	2003
Not later than one year	638
Later than one year not later than five years	1,511
Later than five years	814
Total future minimum lease payments	**2,963**

17. INVESTMENT SECURITIES, LESS ALLOWANCE FOR IMPAIRMENT

Investment securities comprise:

	2003
Debt securities available for sale	5,822
Equity securities available for sale	435
	6,257
Less allowance for impairment	(256)
Total investment securities, less allowance for impairment	**6,001**

Movements in allowances for impairment for the year ended 31 December 2003 are disclosed in Note 5.

Debt securities available for sale comprise:

	2003
Promissory notes of Belarusian banks	5,623
Promissory notes of foreign banks	199
	5,822
Less allowance for impairment	(256)
Total debt securities available for sale, less allowance for impairment	**5,566**

Currently, it is not possible to reasonably estimate the fair value of equity securities available for sale, therefore these investments are stated at cost.

Promissory notes of Belarusian Banks in the Bank's portfolio are Belarusian Rouble denominated debt securities purchased with discount to face value, with maturities ranging from 1 to 12 months.

Promissory notes of foreign banks in the Bank's portfolio are promissory notes issued by Russian banks.

Equity securities available for sale include investments in associates which comprise:

	% in equity	**2003**
OAO "Centralnaya kompania Zhlobinskoj agrarnoj finansovo-promyshlennoj gruppy" (OJSC "Central company of the Zhlobin agrarian financial and industrial group")	33.00%	8
Platezhnaya systema "Belkart" (Payments system "Belkart")	24.64%	85
Total investments in associates		**93**

Financial statements of these companies were not accounted for under the equity method because this would not have had a significant effect on the Bank's financial statements as a whole. As fair value of these securities cannot be determined investments in these securities are stated at cost of acquisition.

18. FIXED AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION

	Buildings and constructions	**Computer equipment**	**Vehicles**	**Office furniture and other fixed assets**	**Construc-tion in progress**	**Total**
At inflated cost						
31 December 2002	74,766	24,628	11,772	22,498	4,027	137,691
Additions	4,936	2,014	1,029	2,662	887	11,528
Disposals	(164)	(1,255)	(423)	(838)	-	(2,680)
31 December 2003	79,538	25,387	12,378	24,322	4,914	146,539
Accumulated depreciation						
31 December 2002	6,258	16,050	8,232	8,835	-	39,375
Charge for the period	919	5,446	1,309	2,531	-	10,205
Disposals	(2)	(1,140)	(416)	(738)	-	(2,296)
31 December 2003	7,175	20,356	9,125	10,628	-	47,284
Net book value						
31 December 2003	**72,363**	**5,031**	**3,253**	**13,694**	**4,914**	**99,255**
Net book value						
31 December 2002	**68,508**	**8,578**	**3,540**	**13,663**	**4,027**	**98,316**

19. OTHER ASSETS

Other assets comprise:

	2003
Taxes receivable, other than income taxes	2,114
Accrued commission income	1,014
Prepaid expenses and receivables on other transactions	915
Advances on capital investments	488
Settlements with suppliers	278
Assets received through repossession of collateral	102
Other	260
Total other assets	**5,171**

20. DEPOSITS FROM BANKS

Deposits from banks comprise:

	2003
Time deposits	73,602
Demand deposits	744
Accrued interest expense on deposits from banks	77
Total deposits from banks	**74,423**

As of 31 December 2003, included into deposits from banks is BYR 17,300 million and BYR 16,242 million placed with JSC “Priorbank” (the Republic of Belarus) and JSSB “Belarusbank” (the Republic of Belarus), respectively, which represent 23% and 22% of total deposits from banks, respectively.

21. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under repurchase agreements include commitments of the Bank to repurchase GKO’s and GDO’s as of 31 December 2003 for the amount of BYR 706 million and BYR 17,161 million, respectively.

The securities sold under the said agreements are included in the trading portfolio of the Bank at fair value of BYR 760 million and BYR 17,157 million, respectively (Note 14). The maturity of the agreements to repurchase GKO’s is within four months of the respective reporting dates, and the maturity of the agreements to repurchase GDO’s is within one month of the respective reporting date.

22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2003
Time deposits	245,063
Repayable on demand	133,696
Accrued interest expense on customer accounts	3,041
Total customer accounts	**381,800**

As of 31 December 2003, customer accounts of BYR 1,394 million were held as security against letters of credit issued by the Bank.

23. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	2003
Interest free promissory notes	33,729
Discount bearing promissory notes	3,992
Interest bearing promissory notes	1,501
Accrued interest expense on debt securities issued	261
Total debt securities issued	**39,483**

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

As of 31 December 2003 interest rates on interest bearing promissory notes denominated in foreign currency were 4% per annum.

As of 31 December 2003 interest rates on interest bearing promissory notes denominated in BYR ranged from 9% to 32.5% per annum.

24. OTHER LIABILITIES

Other liabilities comprise:

	2003
Taxes payable, other than income taxes	3,015
Trade payables	350
Provisions for guarantees	259
Other	118
Total other liabilities	**3,742**

25. SHARE CAPITAL

As of 31 December 2003 the authorized, issued and fully paid share capital comprised 298,764,764,569 ordinary shares with a par value of BYR 2 each (at historical cost) and 279,300 cumulative preference shares with a par value of BYR 2 each (at statutory historical cost before fair value adjustment and restatement for inflation). All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting.

For the year ended 31 December 2003, share capital increase included share capital contributions, resulting from the capitalization of funds received for the financing of the low interest loans programs (Note 16) and were recorded at the fair value of the respective loans taken as of the dates of the capitalization amounting to BYR 76,273 million (as restated for hyperinflation). The nominal value of these contributions was BYR 187,588 million. The amount of BYR 135,798 million (as restated for hyperinflation) was contributed in cash.

26. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

	2003	
	Nominal Amount	**Risk Weighted Amount**
Contingent liabilities and credit commitments		
Guarantees issued	5,937	5,937
Letters of credit and other contingent obligations	1,394	-
Commitments on credits and unused credit lines	3,421	-
Total contingent liabilities and credit commitments	**10,752**	**5,937**
Commitments under trust agreement	1,294	**-**
Total	**12,046**	**5,937**

The Bank has made a provision of BYR 259 million against commitments on issued guarantees outstanding as of 31 December 2003.

***Contingent liabilities* -** In 1995 the Bank entered into a trust agreement with Investors Guaranty Corporation LLC, USA. Under its terms the Bank received gold coins in the amount of USD 1.6 million on commission and placed a security deposit of USD 1 million with the aforementioned company. A portion of the coins worth about USD 1 million was sold by the Bank. As of 31 December 2003 Investors Guaranty Corporation LLC has not made any claims for the unsold remainder of the coins. However, there is a possibility of a legal claim by Investors Guaranty Corporation LLC, which may result in a contingent liability of the Bank either to return the coins or to compensate their value. The value of the remaining coins per the trust agreement is about USD 0.6 million.

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

***Lease Commitments* -** The Bank had no material commitments for leases outstanding as of 31 December 2003.

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

***Taxes* -** Due to the presence in Belarusian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be levied with additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowances were made in the financial statements.

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

27. TRANSACTIONS WITH RELATED PARTIES

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

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or exercise significant influence on the Bank's activities, or are controlled by, or are under common control with the Bank. (This includes holding companies, subsidiaries and fellow subsidiaries);

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

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

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

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

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

	2003	
	Related party transactions	**Total category as per financial statements caption**
Loans to customers, gross	201	626,921
Allowance for loans to customers	(4)	(62,373)
Customer accounts	1,061	381,800

During the year ended 31 December 2003 the Bank originated loans and advances to banks and customers - related parties amounting to BYR 184 million, which were repaid in the year in the amount of BYR 17 million. The Bank has interest income accrued in respect of loans and advances granted to related parties totalling BYR 1 million as of 31 December 2003.

During the year ended 31 December 2003 the Bank received advances and deposits from customers - related parties of BYR 5,721 million, and repaid advances and deposits totalling BYR 5,101 million. The Bank has interest expense accrued in respect of advances and deposits received from related parties, totalling BYR 17 million as of 31 December 2003.

Included in the profit and loss account for the year ended 31 December 2003 are the following amounts which arose due to transactions with related parties:

	2003	
	Related party transactions	**Total category as per financial statements caption**
Interest income	12	163,961
Interest expense	(185)	(85,866)
Operating expenses	(4,094)	(114,486)

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

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in these financial statements are not necessarily indicative of the amounts the Bank could realize in the market from the sale of its full holdings of a particular instrument.

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

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

Loans and advances to banks - As of 31 December 2003, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

Trading securities - As of 31 December 2003 trading securities are stated at fair value. The fair value of these trade securities was determined with reference to an active market.

Securities purchased under repurchase agreements - As of 31 December 2003, the fair value of securities purchased under agreements to resell is determined based on market value of backed securities and other assets with reference to an active market.

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

Securities available for sale - As of 31 December 2003 securities available for sale are stated at fair value or at cost, which approximates fair value. Fair value of securities available for sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities fair value was determined by reference to market prices of securities with similar credit risk and/or maturity. Non-marketable securities are stated at cost, less allowance for impairment unless there are other appropriate and workable methods of reasonably estimating their fair value.

Deposits from banks - As of 31 December 2003 the carrying amount of deposits from banks is a reasonable estimate of their fair value.

Customer accounts - As of 31 December 2003 the carrying amount of term deposits and current accounts of the Bank's customers is a reasonable estimate of their fair value.

Securities sold under repurchase agreements - As of 31 December 2003 the carrying amount of securities sold under agreements to repurchase is a reasonable estimate of their fair value.

Debt securities issued - Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates fair value.

29. REGULATORY MATTERS

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

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

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

Estimate	Description of position
0%	Cash and balances with the National Bank of the Republic of Belarus
0%	State debt securities in BYR
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
0%	Standby letters of credit secured by customer funds
50%	Other standby letters of credit and other transaction related contingent obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Guarantees issued

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

Capital amounts and ratios	Actual amount in BYR million	For capital adequacy purposes amount in BYR million	Ratio for capital adequacy purposes	Minimum required ratio
As of 31 December 2003				
Total capital	392,433	397,975	65.02%	8%
Tier 1 capital	392,433	392,433	64.11%	4%

30. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Liquidity risk

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

To minimize the liquidity risk and to coordinate the process of the risk mitigation the annual Borrowing and Lending Plan is developed by the Economic Division and Foreign Economic Relations Division in cooperation with other respective divisions. Credit Division, Long-term Credit and Budgetary Financing Division, Credit Resources Division, Foreign Economic Relations Division, and Securities and Treasury Division perform regular review of the Plan fulfilment and propose corrective measures if necessary.

The following tables present an analysis of the interest rate risk and the liquidity risk on the balance sheet.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined (incl. allowance for losses and impairment)	2003 BYR million Total
ASSETS								
Interest bearing assets:								
Loans and advances to banks, less allowance for loan losses	28,853	-	216	-	-	-	(336)	28,733
Trading securities	53,314	-	-	-	-	-	-	53,314
Securities purchased under agreements to resell	-	1,446	-	-	-	-	-	1,446
Loans and advances to customers, less allowance for loan losses	63,033	105,290	310,700	104,516	25,817	14,810	(62,373)	561,793
Investment securities, less allowance for impairment	1,497	2,013	16	3	-	226	(225)	3,530
Total interest bearing assets	146,697	108,749	310,932	104,519	25,817	15,036	(62,934)	648,816
Non interest bearing assets:								
Cash and balances with the National Bank of the Republic of Belarus	130,591	-	-	-	-	-	19,141	149,732
Loans and advances to banks, less allowance for loan losses	1,951	-	1,206	-	-	252	(272)	3,137
Investment securities, less allowance for impairment	347	1,157	510	436	52	-	(31)	2,471
Interest accrued on interest bearing assets	2,080	-	-	-	-	684	-	2,764
Fixed and intangible assets, less accumulated depreciation	-	-	1,049	23,639	74,567	-	-	99,255
Other assets	1,389	967	1,720	1,016	-	39	40	5,171
Total non interest bearing assets	136,358	2,124	4,485	25,091	74,619	975	18,878	262,530
TOTAL ASSETS	**283,055**	**110,873**	**315,417**	**129,610**	**100,436**	**16,011**	**(44,056)**	**911,346**
LIABILITIES								
Interest bearing liabilities:								
Deposits from banks	57,387	5,229	10,750	250	-	-	-	73,616
Securities sold under agreements to repurchase	17,161	353	353	-	-	-	-	17,867
Customer accounts	84,016	93,015	61,784	6,248	-	-	-	245,063
Debt securities issued	3,710	127	1,643	13	-	-	-	5,493
Total interest bearing liabilities	162,274	98,724	74,530	6,511	-	-	-	342,039
Non interest bearing liabilities:								
Deposits from banks	730	-	-	-	-	-	-	730
Customer accounts	133,696	-	-	-	-	-	-	133,696
Debt securities issued	21,102	12,485	142	-	-	-	-	33,729
Interest accrued on interest bearing liabilities	3,379	-	-	-	-	-	-	3,379
Other liabilities	1,815	554	950	164	-	-	259	3,742
Total non interest bearing liabilities	160,722	13,039	1,092	164	-	-	259	175,276
TOTAL LIABILITIES	**322,996**	**111,763**	**75,622**	**6,675**	**-**	**-**	**259**	**517,315**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years
Liquidity gap	(39,941)	(890)	239,795	122,935	100,436
Interest sensitivity gap	(15,577)	10,025	236,402	98,008	25,817
Cumulative interest sensitivity gap	(15,577)	(5,552)	230,850	328,858	354,675
Cumulative interest sensitivity gap as a percentage of total assets	-2%	-1%	25%	36%	39%

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

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. The interest rates presented are average rates by categories of financial assets and liabilities to determine interest rate exposure of the Bank. The Bank has established controls over interest rate risks on the level of the Credit Committee of the Bank. Interest rates for the Belarusian Rouble nominated loans are established by the Credit Resources Division, for foreign currency nominated loans – by the Foreign Economic Relations Division. Core decisions on interest rates are to be approved by the Credit Committee of the Bank.

	2003			
	BYR	USD	EUR	Other currencies
ASSETS				
Loans and advances to banks	25.0%	0.9%	1.9%	2.0%
Loans and advances to customers	15.7%	11.2%	11.2%	-
Investment securities available for sale	27.2%	-	-	-
LIABILITIES				
Deposits from banks	30.4%	-	-	-
Customer accounts				
- on demand deposits	3.3%	0.8%	0.8%	0.5%
- term deposits	25.5%	6.8%	6.8%	5.7%
Debt securities issued	20.9%	4.0%	-	-

The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Currency risk

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

The Foreign Economic Relations Division performs currency risk management through setting and control of the open currency position limits by branch and in total, which enables the Bank to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. The limits are set in compliance with the regulations of the NB RB.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

							2003
	BYR	**USD** 1USD= BYR 2,156	**EUR** 1EUR= BYR 2,695.22	**RUR** 1RUR= BYR 73.19	**Other currencies**	**Currency undefined (incl. allowance for losses and impair-ment)**	**BYR million Total**
ASSETS							
Cash and balances with the National Bank of the Republic of Belarus	134,660	9,170	1,725	4,091	86	-	149,732
Loans and advances to banks, less allowance for loan losses	4,769	3,007	9,059	15,165	487	(608)	31,879
Trading securities	53,314	-	-	-	-	-	53,314
Securities purchased under agreements to resell	1,446	-	-	-	-	-	1,446
Loans and advances to customers, less allowance for loan losses	547,270	66,760	12,293	598	-	(62,373)	564,548
Investment securities, less allowance for impairment losses	5,803	-	-	454	-	(256)	6,001
Fixed and intangible assets, less accumulated depreciation	99,255	-	-	-	-	-	99,255
Other assets	5,000	149	10	12	-	-	5,171
TOTAL ASSETS	**851,517**	**79,086**	**23,087**	**20,320**	**573**	**(63,237)**	**911,346**
LIABILITIES							
Deposits from banks	74,313	26	4	70	10	-	74,423
Securities sold under agreements to repurchase	17,867	-	-	-	-	-	17,867
Customer accounts	312,746	50,579	7,701	10,772	2	-	381,800
Debt securities issued	39,448	35	-	-	-	-	39,483
Other liabilities	3,466	8	1	8	-	259	3,742
TOTAL LIABILITIES	**447,840**	**50,648**	**7,706**	**10,850**	**12**	**259**	**517,315**
OPEN BALANCE SHEET POSITION	**403,677**	**28,438**	**15,381**	**9,470**	**561**		

Credit risk

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

On different organizational levels the Credit Committees of the Bank within scope of their authorities establish limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Limits on the level of credit risk by one borrower are reviewed and are monthly approved by the Board. The exposure to any one borrower 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 daily. When necessary, and in the case of most loans, the Bank obtains collateral as well as corporate and personal guarantees. Credit risk and the value of collateral are subject to continuous monitoring.

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

Geographical concentration

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

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	Undefined (incl. allowance for losses and impairment)	2003 BYR million Total
ASSETS						
Cash and balances with the National Bank of the Republic of Belarus	149,732	-	-	-	-	149,732
Loans and advances to banks, less allowance for loan losses	16,943	5,769	9,747	28	(608)	31,879
Trading securities	53,314	-	-	-	-	53,314
Securities purchased under agreements to resell	1,446	-	-	-	-	1,446
Loans and advances to customers, less allowance for loan losses	626,921	-	-	-	(62,373)	564,548
Investment securities, less allowance for impairment losses	6,058	199	-	-	(256)	6,001
Fixed and intangible assets, less accumulated depreciation	99,255	-	-	-	-	99,255
Other assets	5,171	-	-	-	-	5,171
TOTAL ASSETS	**958,840**	**5,968**	**9,747**	**28**	**(63,237)**	**911,346**
LIABILITIES						
Deposits from banks	74,423	-	-	-	-	74,423
Securities sold under agreements to repurchase	17,867	-	-	-	-	17,867
Customer accounts	381,800	-	-	-	-	381,800
Debt securities issued	39,483	-	-	-	-	39,483
Other liabilities	3,483	-	-	-	259	3,742
TOTAL LIABILITIES	**517,056**	**-**	**-**	**-**	**259**	**517,315**
NET BALANCE SHEET POSITION	**441,784**	**5,968**	**9,747**	**28**		

31. EVENTS AFTER THE BALANCE SHEET DATE

In accordance with IAS 10 “Events after balance sheet date” dividends on preferred shares for 2003 in the amount of BYR 20 per share, which were declared and approved by the General Shareholders’ Meeting in March 2004, have not been accrued in the financial statements for the year ended 31 December 2003.

In 2004 the General Shareholders’ Meeting made a decision not to pay dividends on ordinary shares for the year 2003.