

**OPEN JOINT STOCK COMPANY
“Belagroprombank”**

Independent Auditors’ Report

Financial Statements
for the Year Ended 31 December 2004

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Open Joint Stock Company "Belagroprombank" (hereinafter - "the Bank") as of 31 December 2004 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 in all material respects based on our audit.

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

As discussed in Note 13, in accordance with the Order of the President of the Republic of Belarus #625 dated 29 December 2004, and the Provision of the Council of Ministers # 1356 dated 28 October 2004, the interest rates on loans granted by the Bank under the programs of the Government of the Republic of Belarus on agricultural sector financing were reduced by 2% on housing loans effective from 1 January 2005, and on machinery loans – effective from 2 November 2004. In our opinion, the reduction in interest rates affected fair value of those loans; however, the Bank did not recognize the respective impairment loss in the financial statements. Should the impairment loss have been recognized, the amount of loans and advances to customers as of 31 December 2004 would decrease by BYR 18,929 million, which would result in an increase in the net loss for 2004 and an increase in the accumulated deficit as of 31 December 2004 by the same amount.

In our opinion, except for the effect of not recognizing the impairment loss on loans as discussed in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Without further qualifying our opinion, we again draw attention to Note 13, disclosing the fact that due to the absence of a market for financial instruments having substantially the same terms and characteristics as the 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 determination of the market interest rate used to measure the loans and respective contributions to the share capital of the Bank at fair value.

Without further qualifying our opinion, we draw attention to Note 3, disclosing the fact that the Bank restated comparative information for 2003 in order to recognize provision for the fair value of the commitment to grant loans under the governmental housing loan program.

Without further qualifying our opinion, we draw attention to Note 28, describing uncertainties currently existing in the economic environment in the Republic of Belarus.



10 June 2005

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

	Notes	2004	2003
Interest income	4,24	199,167	187,571
Interest expense	4,24	<u>(108,686)</u>	<u>(98,231)</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		90,481	89,340
Provision for loan losses	5	<u>(1,036)</u>	<u>(85)</u>
NET INTEREST INCOME		<u>89,445</u>	<u>89,255</u>
Net gain on securities held for trading		12,918	10,943
Net gain on foreign exchange operations		12,734	16,252
Fees and commission income	6	73,188	69,080
Fees and commission expense	6	(3,968)	(4,003)
Net gain on investment securities		2,626	1,305
Other income	7	<u>5,727</u>	<u>2,050</u>
NET NON-INTEREST INCOME		<u>103,225</u>	<u>95,627</u>
OPERATING INCOME		192,670	184,882
OPERATING EXPENSES	8,24	<u>(140,716)</u>	<u>(130,972)</u>
OPERATING PROFIT		51,954	53,910
Provision for losses on other transactions	5	<u>(13)</u>	<u>(191)</u>
PROFIT BEFORE INCOME TAXES AND LOSS ON NET MONETARY POSITION		51,941	53,719
Loss on net monetary position due to inflation effect		<u>(38,402)</u>	<u>(25,114)</u>
PROFIT BEFORE INCOME TAXES		13,539	28,605
Income tax expense	9	<u>(27,193)</u>	<u>(26,776)</u>
NET (LOSS)/ PROFIT		<u>(13,654)</u>	<u>1,829</u>

On behalf of the Board



Acting Chairman



Chief Accountant

The notes on pages 7 to 43 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

	Notes	2004	2003 (restated)
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	10	133,207	171,293
Loans and advances to banks, less allowance for loan losses	11	18,883	36,470
Securities held for trading	12	89,583	60,991
Securities purchased under agreements to resell		-	1,654
Precious metals	23	825	-
Loans and advances to customers, less allowance for loan losses	13,24	1,117,784	645,843
Investment securities, less allowance for impairment	14	5,011	6,865
Fixed and intangible assets, less accumulated depreciation	15	123,927	113,548
Other assets	16	8,886	5,916
TOTAL ASSETS		1,498,106	1,042,580
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Due to the National Bank of the Republic of Belarus	17	172,462	-
Loans and advances from banks	18	72,692	85,140
Securities sold under agreements to repurchase		-	20,440
Customer accounts	19,24	734,285	436,779
Debt securities issued	20	24,508	45,169
Provisions	3	-	84,607
Other liabilities	21	1,982	4,281
Total liabilities		1,005,929	676,416
SHAREHOLDERS' EQUITY:			
Share capital	22	709,918	570,245
Accumulated deficit		(217,741)	(204,081)
Total shareholders' equity		492,177	366,164
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,498,106	1,042,580

On behalf of the Board



Acting Chairman



Chief Accountant

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OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”


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

	Share capital	Accumulated deficit (as restated, see Note 3)	Total shareholders' equity (as restated, see Note 3)
31 December 2002	327,636	(121,296)	206,340
Share capital increase	242,609	-	242,609
Net profit	-	1,829	1,829
Dividends paid for the year 2002	-	(7)	(7)
31 December 2003	570,245	(119,474)	450,771
Effect of restatement for recognition of provision (as discussed in Note 3)	-	(84,607)	(84,607)
31 December 2003 (restated)	570,245	(204,081)	366,164
Share capital increase	139,673	-	139,673
Net loss	-	(13,654)	(13,654)
Dividends paid for the year 2003	-	(6)	(6)
31 December 2004	709,918	(217,741)	492,177

On behalf of the Board



Acting Chairman



Chief Accountant

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OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

	2004	2003 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes and loss on net monetary position	51,941	53,719
Adjustments for:		
Provision for loan losses	1,036	85
Provision for losses on other transactions	13	191
Amortization of discount on loans to customers	(6,583)	(4,374)
Fair value adjustment on securities available for sale	-	(39)
Depreciation charge on fixed and intangible assets	6,723	9,757
(Gain)/ loss on disposal of fixed assets	(732)	38
Net change in interest accruals	682	548
Accrued commission income	(683)	(371)
Cash flow from operating activities before changes in operating assets and liabilities	<u>52,397</u>	<u>59,554</u>
Changes in operating assets and liabilities		
(Increase) /decrease in operating assets:		
Minimum reserve deposit with the National Bank of the Republic of Belarus	(13,058)	(15,171)
Loans and advances to banks	18,272	(25,938)
Loans and advances to customers	(698,120)	(343,321)
Trading securities	436	(436)
Securities purchased under agreements to resell	1,654	(1,619)
Precious metals	(825)	-
Securities available for sale	1,946	6,641
Other assets	(1,077)	1,102
Increase/(decrease) in operating liabilities:		
Deposits from banks	159,111	13,685
Customer accounts	296,154	132,990
Securities sold under agreements to repurchase	(20,440)	15,144
Other liabilities	(2,274)	(5,266)
Cash outflow from operating activities before income taxes	<u>(205,824)</u>	<u>(162,635)</u>
Income taxes paid	<u>(27,193)</u>	<u>(26,776)</u>
Net cash outflow from operating activities	<u>(233,017)</u>	<u>(189,411)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed and intangible assets	(18,498)	(13,166)
Proceeds on sale of fixed and intangible assets	<u>918</u>	<u>405</u>
Net cash outflows from investing activities	<u>(17,580)</u>	<u>(12,761)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of ordinary share capital	296,778	371,041
Dividends paid	(6)	(7)
Repayment of debt securities issued, net	<u>(20,441)</u>	<u>26,256</u>
Net cash inflows from financing activities	<u>276,331</u>	<u>397,290</u>

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

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

	Notes	2004	2003
NET INCREASE IN CASH AND CASH EQUIVALENTS		25,734	195,118
INFLATION EFFECT ON CASH (INCLUDING CHANGE IN VALUATION ALLOWANCES)		(47,580)	(37,989)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	10	<u>219,260</u>	<u>62,131</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	10	<u><u>197,414</u></u>	<u><u>219,260</u></u>

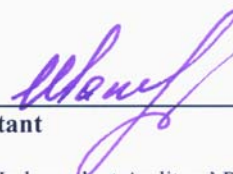
Interest paid and received by the Bank in cash during the year ended 31 December 2004 amounted to BYR 106,651 million and BYR 195,734 million, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to BYR 98,387 million and BYR 183,623 million, respectively.

On behalf of the Board



Acting Chairman



Chief Accountant

The notes on pages 7 to 43 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (in millions of Belarusian Roubles)

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 Olshevskogo 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.

The Bank’s organizational structure includes the Head Office, 7 branches (6 regional branches and Minsk City Directorate), and 125 local sub-branches throughout the Republic of Belarus.

The number of employees of the Bank as of 31 December 2004 and 2003 was 6,609 and 6,421, respectively.

As of 31 December 2004 and 2003, the share capital was owned by the following shareholders:

Shareholder	2004 %	2003 %
Ministry of Economy of the Republic of Belarus	85.65%	86.88%
Region Executive Committees	12.71%	11.52%
Other	1.64%	1.60%
Total	100.00%	100.00%

These financial statements were authorized for issue by the management of the Bank on 1 June 2005.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in millions of Belarusian Roubles (“BYR”), unless otherwise indicated. These financial statements are prepared on the accrual basis and on the historical cost basis modified for the measurement at fair value of available for sale securities, financial assets and financial liabilities held for trading, and according to International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

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

Shareholders’ equity as of 31 December 2004 and the loss for the year then ended are reconciled between the statutory accounting legislation and IFRS as follows:

	2004	
	Equity	Profit/(loss)
Statutory accounting legislation	1,021,767	16,992
Discounting of favorable loans granted to agricultural enterprises	(516,416)	6,583
Provisions, net	(15,238)	9,288
IAS 29 effect, net	(6,173)	(38,038)
Fair value adjustments, net	3,189	1,223
Accrued interest adjustments, net	6,374	2,595
Foreign currency gain adjustments, net	5,657	527
Other, net	(6,983)	(12,824)
	<u>492,177</u>	<u>(13,654)</u>
International Financial Reporting Standards	492,177	(13,654)

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 obligation of the instrument. Regular purchase and sale 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 on hand, unrestricted balances on correspondent accounts with the National Bank of the Republic of Belarus (the “NB RB”) and central banks of other countries and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”) with maturity within 90 days, as well as government debt securities included in trading portfolio, which may be converted to cash within a short period of time. The minimum reserve deposit required by the National Bank of the Republic of Belarus is not treated as a cash equivalent due to restrictions on its availability.

Precious metals

Assets and liabilities denominated in precious metals are measured and translated based on the second fixing of the London Metal Exchange rates as of 31 December 2004 using the BYR/USD exchange rate effective at the date. Changes in the bid prices are recorded in other income.

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 fixed maturity 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.

Securities held for trading

Securities held for trading 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. Securities held for trading 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 securities held for trading. Accrued interest receivable is included in the market price of the 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 securities held for trading is recognized in the profit and loss account for the period.

Repurchase and reverse repurchase agreements

The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of 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 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 the event that assets purchased under reverse repos are sold to third parties, the results are recorded with the gain or loss included in net gains/ (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

Originated loans

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

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

Write off of loans and advances

Loans and advances are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities to collect amounts due to the Bank and to receive all available collateral. 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 non-accrual status when interest is delinquent for a period in excess of 30 days. Interest income is not recognized if recovery is doubtful and it is accrued on respective off-balance sheet accounts. Subsequent payments by borrowers are applied first to principal and then to delinquent interest. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowance for losses

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

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

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

It should be noted that estimate of allowance for losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which maybe higher then the allowance for losses, it is the judgment of management that the allowance for losses is adequate to absorb losses inherent in the risk assets.

Securities available for sale

Securities available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which 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 securities available for sale. Accrued interest receivable is included in the market price of the securities. If such quotes do not exist, management estimation is used. Realised and unrealised gains and losses arising from changes in the fair value of securities available for sale are included in the profit and loss account in the period in which they arise as gain/(loss) on investment securities. Interest earned on securities available for sale is recognized in profit and loss account as interest income on investment securities. Dividends received are included in other income in the profit and loss account. Non-marketable securities that do not have fixed maturities are stated at cost less allowance for impairment unless there are other appropriate and workable methods to reasonably estimate their fair value.

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 and other fixed assets	5 – 25 %

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

Taxation

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

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

Deposits from banks and customers

Customer and bank deposits are initially recognized at 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 and certificates of deposit issued by the Bank. 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 are stated at their fair value at the date of contribution. Treasury stock is recorded at restated cost.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preference shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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 International Accounting Standard 10 "Events after the Balance Sheet Date" (IAS 10) and disclosed accordingly.

Retirement and other benefit obligations

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

Recognition of income and expense

Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans become overdue by more than 30 days. Other income is credited to profit and loss account when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission income/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 rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

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

	31 December 2004	31 December 2003
BYR/USD	2,170.00	2,156.00
BYR/EUR	2,955.65	2,695.22
BYR/RUR	77.91	73.19
BYR/gold (1OZ)	950,460.00	897,435.00

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.

Accounting for the effects of hyperinflation

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

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

The restatement was calculated using the conversion factors derived from the Consumer Price Index (CPI), published by the Ministry of Statistics and Analysis. The CPI for the five years are the following:

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

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

Fixed assets have been indexed by the change in the CPI from the date of purchase. Where indexation is applied, an assessment has been made of the potential impairment in the value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

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

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

Restatement of the Bank's financial statements for the year ended 31 December 2003

In 2004, the Bank has early adopted IAS 8 (Revised) "Accounting policies, changes in accounting estimates and errors". As discussed in Note 22, share capital increases in 2003 included cash contribution of BYR 100,848 million (BYR 88,154 million without effect of inflation for 2004) made on 30 December 2003, which was provided to the Bank by the Government under the governmental housing loan program described in Note 13. As these funds were not granted to the borrowers in 2003, the Bank included them in the share capital at the nominal amount. However, subsequent to the issuance of the Bank's financial statements for the year ended 31 December 2003, the management has concluded that as of 31 December 2003 these funds were burdened by the commitment to issue the loans under the program, and a provision for the fair value of the commitment should be recognized in the Bank's financial statements for the year ended 31 December 2003. Accordingly, in its financial statements for the year ended 31 December 2004, the Bank has retrospectively recognized the provision and restated comparative information for the year ended 31 December 2003. The provision was estimated in the amount of BYR 84,607 million (BYR 73,957 million without effect of inflation for 2004) and the effect of the restatement is presented as follows:

(Amounts include effect of inflation for 2004)	2003	Adjustment	2003 (restated)
Provisions	-	84,607	84,607
Accumulated deficit	119,474	84,607	204,081

Reclassifications

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

4. NET INTEREST INCOME

Net interest income comprises:

	2004	2003
Interest income		
Interest on loans and advances to customers	197,790	186,048
Interest on loans and advances to banks	1,307	1,425
Interest on debt securities	11	92
Other interest income	59	6
	<u>199,167</u>	<u>187,571</u>
Interest expense		
Interest on customer accounts	78,376	72,550
Interest on loans and advances from banks	26,241	23,498
Interest on debt securities issued	3,968	2,183
Other interest expenses	101	-
	<u>108,686</u>	<u>98,231</u>
Net interest income before provision for loan losses	<u><u>90,481</u></u>	<u><u>89,340</u></u>

5. ALLOWANCE FOR LOSSES AND IMPAIRMENT, 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	343	84,679	321	85,343
Provision/ (Recovery)	416	(333)	2	85
Write-offs	-	(263)	-	(263)
Gain on net monetary position	(64)	(12,728)	(30)	(12,822)
31 December 2003	<u>695</u>	<u>71,355</u>	<u>293</u>	<u>72,343</u>
(Recovery) / Provision	(379)	1,491	(76)	1,036
Write-offs	(267)	-	(149)	(416)
Gain on net monetary position	(45)	(9,079)	(16)	(9,140)
31 December 2004	<u><u>4</u></u>	<u><u>63,767</u></u>	<u><u>52</u></u>	<u><u>63,823</u></u>

The movements in allowances for losses on other credit risks were as follows:

	Guarantees
31 December 2002	158
Provision	191
Gain on net monetary position	<u>(53)</u>
31 December 2003	296
Provision	13
Gain on net monetary position	<u>(38)</u>
31 December 2004	<u><u>271</u></u>

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

6. FEES AND COMMISSION INCOME AND EXPENSE

Fees and commission income and expense comprise:

	2004	2003
Fees and commission income:		
Service fees on operations with customers	63,486	61,145
Commission on foreign exchange transactions	7,174	4,903
Commission on transactions with securities	1,881	2,510
Commission on transactions with banks	647	488
Other fee and commission income	<u>-</u>	<u>34</u>
Total fees and commission income	<u><u>73,188</u></u>	<u><u>69,080</u></u>
	2004	2003
Fees and commission expense:		
Commission on transactions with banks	3,558	3,498
Commission on foreign exchange transactions	267	388
Commission on transactions with securities	76	76
Commission on operations with customers	66	40
Other fee and commission expense	<u>1</u>	<u>1</u>
Total fees and commission expense	<u><u>3,968</u></u>	<u><u>4,003</u></u>

7. OTHER INCOME

Other income comprises:

	2004	2003
Gain from fixed and other assets disposal	2,444	206
Income on operations with plastic cards	351	-
Rent income	435	220
Fines and penalties received	213	419
Revenue from consulting services	31	165
Income from recovery of debts previously written off	22	42
Other	2,231	998
	<hr/>	<hr/>
Total other income	5,727	2,050

8. OPERATING EXPENSES

Operating expenses comprise:

	2004	2003
Staff costs	57,529	52,973
Social security contributions	18,404	17,055
Taxes, other than income tax	17,166	13,662
Rent, utilities and repairs	12,891	9,497
Security expenses	7,840	7,491
Depreciation charge on fixed and intangible assets	6,723	9,757
Software use fees	2,738	1,912
Office expenses	3,235	2,416
Transportation expenses	2,961	2,915
Professional service fees	1,729	1,163
Communication expenses	1,653	1,481
Other	7,847	10,650
	<hr/>	<hr/>
Total operating expenses	140,716	130,972

9. INCOME TAXES

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian tax legislation. The tax rates used for the deferred tax calculation as of 31 December 2004 and 2003 were 30% for the republican tax and 4% for the municipal tax. The 4% municipal tax was enforced in 2004 ("charge on transport"). The republican and municipal tax rates were charged successively. The combined effective rate was 32.8%.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of salary and depreciation expenses and other differences resulting from provisions of the 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 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax effect of temporary differences as of 31 December 2004 and 2003 was as follows:

	2004	2003
Tax deductible temporary differences:		
Loans to banks and customers	14,967	27,761
Fixed assets	28,031	23,800
Other assets	5,170	6,923
Other liabilities	271	318
Total tax deductible temporary differences	<u>48,439</u>	<u>58,802</u>
Taxable temporary differences:		
Accrued interest and commission income	(6,374)	(4,325)
Investment securities	-	(74)
Other assets	-	(175)
Total taxable temporary differences	<u>(6,374)</u>	<u>(4,574)</u>
Net tax deductible temporary differences	<u>42,065</u>	<u>54,228</u>
Deferred tax assets at the statutory rate (32.8%)	13,797	17,787
Less: valuation allowance	<u>(13,797)</u>	<u>(17,787)</u>
Net deferred tax asset	<u>-</u>	<u>-</u>

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

	2004	2003
Profit before income taxes	<u>13,539</u>	<u>28,605</u>
Statutory tax rate	32.8%	33.5%
Theoretical tax at the statutory tax rate	4,441	9,583
Tax effect of permanent differences	26,742	21,921
Change in valuation allowance	(3,990)	(4,348)
Change in tax rate	-	(380)
Income tax expense	<u>27,193</u>	<u>26,776</u>

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

	2004	2003
At beginning of the period	17,787	22,135
Recovery of provision	<u>(3,990)</u>	<u>(4,348)</u>
At end of the period	<u>13,797</u>	<u>17,787</u>

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

Cash and balances with the NB RB comprise:

	2004	2003
Cash on hand	60,145	34,991
Balances with the NB RB	73,061	136,302
Accrued interest income on balances with the NB RB	<u>1</u>	<u>-</u>
Total cash and balances with the NB RB	<u>133,207</u>	<u>171,293</u>

The balances with the NB RB as of 31 December 2004 and 2003 include BYR 34,955 million and BYR 21,897 million, respectively, which represent 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:

	2004	2003
Cash and balances with the NB RB	133,206	171,293
Loans and advances to banks in OECD countries	9,580	9,309
Government securities held for trading	<u>89,583</u>	<u>60,555</u>
Less minimum reserve deposit with the NB RB	<u>(34,955)</u>	<u>(21,897)</u>
Total cash and cash equivalents	<u>197,414</u>	<u>219,260</u>

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

Loans and advances to banks comprise:

	2004	2003
Advances to banks	18,887	11,191
Loans to banks	-	25,964
Accrued interest income on loans and advances to banks	<u>-</u>	<u>10</u>
Less allowance for loan losses	<u>(4)</u>	<u>(695)</u>
Total loans and advances to banks, net	<u>18,883</u>	<u>36,470</u>

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

As of 31 December 2004 and 2003, the advances to banks included fixed amounts of BYR 217 million and BYR 247 million, respectively, placed with American Express Bank Ltd as a guarantee deposit on operations with travelers' cheques.

As of 31 December 2004 and 2003, the advances to banks included fixed amounts of BYR 3,864 million and BYR 1,595 million, respectively, placed as security against letters of credit issued by the Bank.

12. SECURITIES HELD FOR TRADING

Securities held for trading comprise:

	2004	2003
Short-term government bonds (GKO)	51,792	40,488
Long-term government bonds (GDO)	<u>37,791</u>	<u>20,503</u>
Total securities held for trading	<u>89,583</u>	<u>60,991</u>

GKO are Belarusian Rouble denominated government securities with short-term maturities that are sold at discount to nominal value by the Ministry of Finance of the Republic of Belarus. The nominal value of GKO is BYR 100 thousand.

GDO are Belarusian Rouble denominated government securities with maturity of one year that are sold at discount to nominal value by the Ministry of Finance of the Republic of Belarus. The nominal value of GDO as of 31 December 2004 and 2003 is BYR 100 thousand and BYR 1 million, respectively.

As of 31 December 2004 included in trading securities were GKO and GDO in the amount of BYR 55,388 million, which were pledged as security against the loans received from the National Bank of the Republic of Belarus.

As of 31 December 2003 included in securities held for trading were GKO and GDO pledged under repurchase agreements with other banks amounting to BYR 869 million and BYR 19,628 million, respectively. Repurchase agreements for GKO have a maturity within four months, for GDO – within one month as of 31 December 2003.

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

Loans and advances to customers comprise:

	2004	2003
Originated loans	1,175,548	711,689
Net investment in finance leases	1,489	2,357
Accrued interest income on loans and advances to customers	<u>4,514</u>	<u>3,152</u>
	1,181,551	717,198
Less allowance for loan losses	<u>(63,767)</u>	<u>(71,355)</u>
Total loans and advances to customers, net	<u>1,117,784</u>	<u>645,843</u>

	2004	2003
Loans collateralized by equipment and goods in turnover	586,451	388,889
Loans collateralized by guarantees of state bodies and local authorities	143,457	86,367
Loans collateralized by real estate	155,501	79,539
Loans collateralized by lien over receivables and goods	59,946	5,410
Loans collateralized by other types of collateral	401	3,951
Unsecured loans	<u>229,792</u>	<u>147,533</u>
Total loans to customers	<u>1,175,548</u>	<u>711,689</u>

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

As of 31 December 2004 and 2003 included in loans and advances to customers are non-accrual loans amounting to BYR 7,270 million and BYR 20,808 million, respectively.

All loans were granted to companies having their registered offices in the Republic of Belarus.

Analysis by industry	2004	2003
Manufacturing	489,248	310,603
Agricultural	480,753	224,163
Trade	90,989	70,895
Construction	12,110	9,381
Individuals	14,938	2,924
Other	88,999	96,080
Accrued interest income on loans and advances to customers	<u>4,514</u>	<u>3,152</u>
	1,181,551	717,198
Less allowance for loan losses	<u>(63,767)</u>	<u>(71,355)</u>
Total loans and advances to customers, net	<u>1,117,784</u>	<u>645,843</u>

The Bank participates in the government programs on granting favourable loans to agricultural enterprises. Under the programs since 1996 the Bank granted loans for housing construction, and since 2003 - loans for the acquisition of agricultural machinery. Prior to 2005 these housing and machinery loans were granted at 5% and 4% annual interest rates, respectively. Since January 2005 housing loans are granted at 3%, and since November 2004 machinery loans are granted at 2%.

Funds for both programs were provided to the Bank by the Government. Until 2004 the funds provided for the housing loan program bore 2% annual interest rate, in 2004 these funds were provided by means of direct contributions to share capital. The funds provided for machinery loan program were interest-free. These interest rates are significantly lower than the inflation rates in the Republic of Belarus. The machinery loans were granted for 7 years. Prior to 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. Also the Decree introduced 3 year moratorium for repayment of principal for all existing and emerging borrowers.

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. Where the resources for financing of these programs were borrowed by the Bank, 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 having substantially the same terms and characteristics as the loans granted under the above mentioned programs, there is a considerable degree of uncertainty surrounding the determination of the market interest rate used to measure such loans at fair value on initial recognition. The Bank has determined the market interest rate for these loans to be equal to the refinance rate of the National Bank of the Republic of Belarus at the date of asset recognition plus 3%. The fair value of the loans granted under the government programs as of 31 December 2004 and 2003 was BYR 147,538 million and 113,057 million, respectively. The nominal value of the loans as of 31 December 2004 and 2003 was BYR 682,884 million and 467,677 million, respectively.

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 2004 and 2003 comprises the following:

	2004	2003
Total minimum lease and maintenance payments	1,935	3,390
Less: unearned finance income	<u>(446)</u>	<u>(1,033)</u>
Net investment in finance leases	<u>1,489</u>	<u>2,357</u>
Current portion	97	508
Long-term portion	<u>1,392</u>	<u>1,849</u>
Net investment in finance leases	<u>1,489</u>	<u>2,357</u>

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

	2004	2003
Not later than one year	125	731
Later than one year not later than five years	1,275	1,729
Later than five years	<u>535</u>	<u>930</u>
Total future minimum lease payments	<u>1,935</u>	<u>3,390</u>

14. INVESTMENT SECURITIES, LESS ALLOWANCE FOR IMPAIRMENT

Investment securities comprise:

	2004	2003
Debt securities available for sale	4,626	6,660
Equity securities available for sale	344	392
Investments in associates	<u>93</u>	<u>106</u>
	5,063	7,158
Less allowance for impairment	<u>(52)</u>	<u>(293)</u>
Total investment securities, net	<u>5,011</u>	<u>6,865</u>

Debt securities available for sale comprise:

	2004	2003
Promissory notes of Belarusian banks	4,574	6,432
Promissory notes of foreign banks	<u>52</u>	<u>228</u>
	4,626	6,660
Less allowance for impairment	<u>(52)</u>	<u>(293)</u>
Total debt securities available for sale, net	<u>4,574</u>	<u>6,367</u>

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

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

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

Investment securities include investments in associates which comprise:

	% in equity	2004	2003
OAo "Centralnaya kompania Zhlobinskoj agrarnoj finansovo-promyshlennoj gruppy" (OJSC "Central company of the Zhlobin agrarian financial and industrial group")	33%	8	9
ZAO "Platezhnaya sistema "Belkart" (CJSC Payments system "Belkart")	25%	<u>85</u>	<u>97</u>
Total investments in associates		<u>93</u>	<u>106</u>

Investments in 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. Investments in these securities are stated at cost.

In January 2005 OJSC "Central company of the Zhlobin agrarian financial and industrial group" was joined to JSC "Zhlobinsky miasokombinat" and liquidated as a separate legal entity. The Bank received 692 shares of JSC "Zhlobinsky miasokombinat" with par value of BYR 12,852 each, totalling to BYR 9 million, which constituted 0.05% of its share capital.

15. FIXED AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION

	Buildings	Computer equipment	Vehicles	Office furniture and other fixed and intangible assets	Construction in progress	Total
At restated cost						
31 December 2003	90,991	29,043	14,160	27,824	5,622	167,640
Additions	3,212	2,056	1,407	2,847	8,624	18,146
Disposals	(149)	(810)	(713)	(1,009)	(858)	(3,539)
31 December 2004	<u>94,054</u>	<u>30,289</u>	<u>14,854</u>	<u>29,662</u>	<u>13,388</u>	<u>182,247</u>
Accumulated depreciation						
31 December 2003	8,208	23,287	10,439	12,158	-	54,092
Charge for the period	1,094	2,031	915	2,683	-	6,723
Disposals	(22)	(802)	(698)	(973)	-	(2,495)
31 December 2004	<u>9,280</u>	<u>24,516</u>	<u>10,656</u>	<u>13,868</u>	<u>-</u>	<u>58,320</u>
Net book value						
31 December 2004	<u><u>84,774</u></u>	<u><u>5,773</u></u>	<u><u>4,198</u></u>	<u><u>15,794</u></u>	<u><u>13,388</u></u>	<u><u>123,927</u></u>
Net book value						
31 December 2003	<u><u>82,783</u></u>	<u><u>5,756</u></u>	<u><u>3,721</u></u>	<u><u>15,666</u></u>	<u><u>5,622</u></u>	<u><u>113,548</u></u>

16. OTHER ASSETS

Other assets comprise:

	2004	2003
Taxes receivable, other than income taxes	3,015	2,418
Accrued commission income	1,843	1,160
Settlements on capital investments	1,769	558
Prepaid expenses and other debtors	1,573	1,047
Settlements with suppliers	357	318
Assets received through repossession of collateral	292	117
Other	37	298
Total other assets	8,886	5,916

17. DUE TO THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

Amounts due to the NB RB comprise:

	2004	2003
Time deposits	171,536	-
Accrued interest expense on deposits of the NB RB	926	-
Total due to the NB RB	172,462	-

18. LOANS AND ADVANCES FROM BANKS

Loans and advances from banks comprise:

	2004	2003
Demand deposits	141	84,201
Time deposits	72,486	851
Accrued interest expense on deposits from banks	65	88
Total deposits from banks	72,692	85,140

As of 31 December 2004, included into loans and advances from banks is BYR 15,969 million with JSC "Belvnesheconombank" (the Republic of Belarus), which represents 22% of total deposits from banks.

As of 31 December 2003, included into loans and advances from banks is BYR 19,791 million and BYR 18,581 million placed by JSC "Priorbank" (the Republic of Belarus) and JSC "Belarusbank" (the Republic of Belarus), respectively, which represents 23% and 22% of total deposits from banks, respectively.

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2004	2003
Time deposits	566,775	280,352
Repayable on demand	162,679	152,948
Accrued interest expense on customer accounts	4,831	3,479
Total customer accounts	734,285	436,779

As of 31 December 2004 and 2003, customer accounts of BYR 3,938 million and BYR 1,595 million were held as security against letters of credit issued by the Bank, respectively.

Analysis of customer accounts by industry:

	2004	2003
Individuals	390,396	230,940
Manufacturing	127,675	124,404
Government bodies	87,726	661
Agricultural	52,941	40,845
Insurance and finance	28,831	11,035
Construction	24,138	12,832
Trade	9,057	6,434
Transport	1,283	1,166
Other	7,407	4,983
Accrued interest expense on customer accounts	4,831	3,479
Total customer accounts	734,285	436,779

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	2004	2003
Interest free promissory notes	10,461	38,586
Promissory notes issued with discount	9,305	4,567
Interest bearing promissory notes	4,663	1,717
Accrued interest expense on debt securities issued	79	299
Total debt securities issued	24,508	45,169

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

During the years 2004 and 2003 the Bank issued interest free promissory notes used by its customers in commercial settlements. Issues of the promissory notes did not assume cash proceeds from the customers and were drawn out and accounted for as loans to customers. Nil interest rates on such promissory notes approximate market rates for similar financial instruments.

21. OTHER LIABILITIES

Other liabilities comprise:

	2004	2003
Taxes payable, other than income taxes	1,215	3,449
Trade payables	401	400
Provisions for guarantees	271	296
Other	95	136
	<hr/>	<hr/>
Total other liabilities	1,982	4,281

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

22. SHARE CAPITAL

As of 31 December 2004 and 2003 the authorized, issued and fully paid share capital comprised 443,917,211,990 and 298,764,764,569 ordinary shares, respectively, with a par value of BYR 2 each and 279,300 cumulative preference shares with a par value of BYR 2 each (all at statutory historical cost before fair value adjustment and restatement for hyperinflation). All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting.

2004 share capital increases included capitalizations of funds borrowed from the Government for the financing of the governmental housing and machinery loan programs (Note 13). The nominal value of these funds was BYR 87,141 million. The capitalisations of these funds were recorded at fair value of the respective loans taken as of the dates of the capitalizations and amounted to BYR 37,500 million (as restated for hyperinflation).

2004 share capital increases also comprised cash contributions of the nominal amount of BYR 203,165 million. The cash contributions included BYR 132,000 million invested by the Government in cash burdened with conditions of the above mentioned governmental programs (the fair value of these cash contributions as restated for hyperinflation is BYR 29,228 million). Not burdened cash contributions amounted to BYR 71,165 million (BYR 72,945 million as restated for hyperinflation).

Share capital increases for 2003 included capitalizations of funds borrowed from the Government for the financing of the governmental housing and machinery loan programs (Note 13). The nominal value of these funds was BYR 214,601 million. The capitalisations of these funds were recorded at the fair value of the respective loans taken as of the dates of the capitalization amounting to BYR 87,256 million (as restated for hyperinflation).

Share capital increases for 2003 also included the nominal amount of BYR 155,353 million (as restated for hyperinflation) contributed by the Government in cash. The cash contributions included BYR 100,848 million invested by the Government in cash burdened with conditions of the above mentioned governmental programs. The fair value of these cash contributions was BYR 16,241 million (as restated for hyperinflation). The discounting effect was accounted for as discussed in Note 3, section "Restatement of the Bank's financial statements for the year ended 31 December 2003".

23. 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 the 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 2004 and 2003, the nominal or contract amounts and risk weighted amounts were:

	2004		2003	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued	7,168	7,168	6,792	6,792
Letters of credit and other contingent obligations	3,938	-	1,595	-
Commitments on credits and unused credit lines	7,961	-	3,914	-
Total contingent liabilities and credit commitments	19,067	7,168	12,301	6,792
Commitments under trust agreement	-	-	1,480	-
Total	19,067	7,168	13,781	6,792

The Bank has made a provision of BYR 271 million and BYR 296 million against commitments under guarantees issued as of 31 December 2004 and 2003.

Commitments on credits and unused credit lines are cancelable agreements and therefore represent no risk and accordingly no provision has been made against them as of 31 December 2004 and 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 for commission sales and placed a security deposit of USD 1 million with the aforementioned company. A portion of the coins worth about USD 1 million was melted into bullions and sold by the Bank to the National Bank of the Republic of Belarus. As of 31 December 2003 Investors Guaranty Corporation LLC has not made any claims for the unsold remainder of the coins, however there was a possibility of a legal claim by Investors Guaranty Corporation LLC, which might result in a contingent liability of the Bank either to return the coins or to compensate for their value. As of 31 December 2003, the value of the remaining coins per the trust agreement was about USD 0.6 million. In 2004 the Bank obtained from the Ministry of Foreign Affairs of the Republic of Belarus a note that Investors Guaranty Corporation LLC was liquidated, and recognized the coins as precious metals at fair value determined with reference to the second fixing of the London Metal Exchange. The Bank intends to melt the coins into gold bullions; respective authorization of the NB RB has been obtained.

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

Operating leases – The Bank had no material commitments for leases outstanding as of 31 December 2004 and 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.

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

24. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24 “Related Party Disclosures”, are those counterparties that represent:

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

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

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

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As of 31 December 2004 and 2003, the Bank had the following transactions outstanding with related parties:

	2004		2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers, gross	1,489	1,181,551	230	717,198
Allowance for losses on loans to customers	(121)	(63,767)	(5)	(71,355)
Customer accounts	5,067	734,285	1,214	436,779

During the year ended 31 December 2004 the Bank originated loans and advances to customers - related parties amounting to BYR 2,339 million, and received loans and advances repaid of BYR 962 million. During the year ended 31 December 2003 the Bank originated loans and advances to customers - related parties amounting to BYR 210 million, and received loans and advances repaid of BYR 19 million. As of 31 December 2004 and 2003, the Bank had interest income accrued in respect of loans and advances granted to related parties totaling BYR 6 million and BYR 1 million, respectively.

During the year ended 31 December 2004 the Bank received advances and deposits from customers - related parties of BYR 12,081 million, and repaid deposits and advances totaling BYR 7,796 million. During the year ended 31 December 2003 the Bank received advances and deposits from customers - related parties of BYR 6,545 million, and repaid deposits and advances totaling BYR 5,836 million. All amounts are after restatement for inflation.

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

	2004		2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	153	199,167	14	187,571
Interest expense	(768)	(108,686)	(212)	(98,231)
Operating expenses	(14,147)	(140,716)	(4,684)	(130,972)

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

25. 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 herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

Cash and balances with the NB RB – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Precious metals – For these instruments the carrying amount is a reasonable estimate of their fair value and determined with reference to the second fixing of the London Metal Exchange.

Loans and advances to banks – As of 31 December 2004 and 2003, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

Securities held for trading – As of 31 December 2004 and 2003 securities held for trading are stated at fair value, determined with reference to an active market.

Securities purchased under repurchase agreements – As of 31 December 2004 and 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 and collateral 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 2004 and 2003 securities available for sale are stated at fair value or at cost, less allowance for impairment, if any, which approximates its 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 maturity. If such quotes do not exist, management estimation is used. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment, if any.

Deposits from banks and due to the NB RB – As of 31 December 2004 and 2003 the carrying amount of deposits from banks and due to the NB RB is a reasonable estimate of their fair value.

Customer accounts – As of 31 December 2004 and 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 2004 and 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 or discounts, which approximates fair value.

26. 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 plus the Bank’s provisions for the principal risks.

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 NB RB
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
100%	Guarantees issued
0%	Letters of credit secured by customer funds

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 2004				
Total capital	492,177	492,177	43.79%	8%
Tier 1 capital	492,177	492,177	43.79%	4%
As of 31 December 2003				
Total capital	366,164	366,164	52.29%	8%
Tier 1 capital	366,164	366,164	52.29%	4%

27. 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, prices of financial instruments 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 interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity un- defined (incl. allowance for losses and impairment)	2004 BYR million Total
ASSETS								
Interest bearing assets:								
Cash and balances with the NB RB	5,324	-	-	-	-	-	-	5,324
Loans and advances to banks, less allowance for loan losses	13,594	2,216	1,352	-	-	-	-	17,162
Securities held for trading	89,583	-	-	-	-	-	-	89,583
Loans and advances to customers, less allowance for loan losses	261,249	249,722	382,608	212,159	46,713	17,316	(57,568)	1,112,199
Investment securities, less allowance for impairment	1,287	3,242	45	4	48	-	(52)	4,574
Total interest bearing assets	371,037	255,180	384,005	212,163	46,761	17,316	(57,620)	1,228,842
Non interest bearing assets:								
Cash and balances with the NB RB	92,927	-	-	-	-	-	34,955	127,882
Precious metals	-	-	-	-	-	-	825	825
Loans and advances to banks, less allowance for loan losses	1,208	513	-	-	-	4	(4)	1,721
Loans and advances to customers, less allowance for loan losses	-	-	-	-	-	7,270	(6,199)	1,071
Investment securities, less allowance for impairment	-	-	-	437	-	-	-	437
Interest accrued on interest bearing assets	3,717	-	-	-	-	798	-	4,515
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	-	-	123,927	123,927
Other assets	3,328	355	4,823	263	39	9	69	8,886
Total non interest bearing assets	101,180	868	4,823	700	39	8,081	153,573	269,264
TOTAL ASSETS	472,217	256,048	388,828	212,863	46,800	25,397	95,953	1,498,106
LIABILITIES								
Interest bearing liabilities:								
Due to the NB RB	89,578	77,525	4,433	-	-	-	-	171,536
Loans and advances from banks	64,125	850	6,108	1,403	-	-	-	72,486
Customer accounts	161,917	134,540	198,350	71,968	-	-	-	566,775
Debt securities issued	6,258	7,470	240	-	-	-	-	13,968
Total interest bearing liabilities	321,878	220,385	209,131	73,371	-	-	-	824,765
Non interest bearing liabilities:								
Loans and advances from banks	141	-	-	-	-	-	-	141
Customer accounts	162,679	-	-	-	-	-	-	162,679
Debt securities issued	7,083	3,366	12	-	-	-	-	10,461
Interest accrued on interest bearing liabilities	5,854	4	43	-	-	-	-	5,901
Other liabilities	1,689	5	4	13	-	-	271	1,982
Total non interest bearing liabilities	177,446	3,375	59	13	-	-	271	181,164
TOTAL LIABILITIES	499,324	223,760	209,190	73,384	-	-	271	1,005,929
Liquidity gap	(27,107)	32,288	179,638	139,479	46,800			
Interest sensitivity gap	49,159	34,795	174,874	138,792	46,761			
Cumulative interest sensitivity gap	49,159	83,954	258,828	397,620	444,381			
Cumulative interest sensitivity gap as a percentage of total assets	3%	6%	17%	27%	30%			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity un- defined (incl. allowance for losses and impairment)	2003 BYR million Total (restated)
ASSETS								
Interest bearing assets:								
Loans and advances to banks, less allowance for loan losses	33,008	-	247	-	-	-	(384)	32,871
Securities held for trading	60,123	432	436	-	-	-	-	60,991
Securities purchased under agreements to resell	-	1,654	-	-	-	-	-	1,654
Loans and advances to customers, less allowance for loan losses	72,110	120,452	355,441	119,566	24,871	798	(53,668)	639,570
Investment securities, less allowance for impairment	1,713	2,303	18	3	-	259	(257)	4,039
Total interest bearing assets	<u>166,954</u>	<u>124,841</u>	<u>356,142</u>	<u>119,569</u>	<u>24,871</u>	<u>1,057</u>	<u>(54,309)</u>	<u>739,125</u>
Non interest bearing assets:								
Cash and balances with the NB RB	149,396	-	-	-	-	-	21,897	171,293
Loans and advances to banks, less allowance for loan losses	2,232	-	1,380	-	-	288	(311)	3,589
Loans and advances to customers, less allowance for loan losses	-	-	-	-	-	20,808	(17,687)	3,121
Investment securities, less allowance for impairment	397	1,324	583	499	59	-	(36)	2,826
Interest accrued on interest bearing assets	2,380	-	-	-	-	782	-	3,162
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	-	-	113,548	113,548
Other assets	1,589	1,106	1,968	1,162	-	45	46	5,916
Total non interest bearing assets	<u>155,994</u>	<u>2,430</u>	<u>3,931</u>	<u>1,661</u>	<u>59</u>	<u>21,923</u>	<u>117,457</u>	<u>303,455</u>
TOTAL ASSETS	<u>322,948</u>	<u>127,271</u>	<u>360,073</u>	<u>121,230</u>	<u>24,930</u>	<u>22,980</u>	<u>63,148</u>	<u>1,042,580</u>
LIABILITIES								
Interest bearing liabilities:								
Loans and advances from banks	65,651	5,982	12,298	286	-	-	-	84,217
Securities sold under agreements to repurchase	19,632	404	404	-	-	-	-	20,440
Customer accounts	96,114	106,409	70,681	7,148	-	-	-	280,352
Debt securities issued	4,244	145	1,880	15	-	-	-	6,284
Total interest bearing liabilities	<u>185,641</u>	<u>112,940</u>	<u>85,263</u>	<u>7,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>391,293</u>
Non interest bearing liabilities:								
Loans and advances from banks	835	-	-	-	-	-	-	835
Customer accounts	152,948	-	-	-	-	-	-	152,948
Debt securities issued	24,141	14,283	162	-	-	-	-	38,586
Provisions	-	-	-	-	-	-	84,607	84,607
Interest accrued on interest bearing liabilities	3,866	-	-	-	-	-	-	3,866
Other liabilities	2,076	634	1,087	188	-	-	296	4,281
Total non interest bearing liabilities	<u>183,866</u>	<u>14,917</u>	<u>1,249</u>	<u>188</u>	<u>-</u>	<u>-</u>	<u>84,903</u>	<u>285,123</u>
TOTAL LIABILITIES	<u>369,507</u>	<u>127,857</u>	<u>86,512</u>	<u>7,637</u>	<u>-</u>	<u>-</u>	<u>84,903</u>	<u>676,416</u>
Liquidity gap	<u>(46,559)</u>	<u>(586)</u>	<u>273,561</u>	<u>113,593</u>	<u>24,930</u>			
Interest sensitivity gap	<u>(18,687)</u>	<u>11,901</u>	<u>270,879</u>	<u>112,120</u>	<u>24,871</u>			
Cumulative interest sensitivity gap	<u>(18,687)</u>	<u>(6,786)</u>	<u>264,093</u>	<u>376,213</u>	<u>401,084</u>			
Cumulative interest sensitivity gap as a percentage of total assets	<u>-2%</u>	<u>-1%</u>	<u>25%</u>	<u>36%</u>	<u>38%</u>			

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.

	2004		2003	
	BYR	Foreign currencies	BYR	Foreign currencies
ASSETS				
Due from the NB RB	-	2.2%	-	-
Loans and advances to banks	-	0.7%	25.0%	1.9%
Securities held for trading	20.1%	-	28.6%	-
Loans and advances to customers	11.2%	10.2%	15.7%	11.2%
Investment securities available for sale	18.2%	-	27.2%	-
LIABILITIES				
Due to the NB RB	14.5%	2.2%	-	-
Loans and advances from banks	22.9%	9.2%	30.4%	-
Customer accounts				
- on demand deposits	1.8%	0.5%	3.3%	0.8%
- term deposits	17.8%	6.7%	25.5%	6.8%
Debt securities issued	19.0%	4.0%	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 tables below:

	BYR	USD 1USD= 2,170 BYR	EUR 1EUR= 2,955.65 BYR	RUB 1RUB= 77.91 BYR	Other currency	Currency undefined (incl. allowance for losses and impairment)	2004 BYR million Total
ASSETS							
Cash and balances with the NB RB	71,428	54,302	3,383	3,843	251	-	133,207
Loans and advances to banks, less allowance for loan losses	-	9,795	1,639	7,320	133	(4)	18,883
Securities held for trading	89,583	-	-	-	-	-	89,583
Precious metals	-	-	-	-	825	-	825
Loans and advances to customers, less allowance for loan losses	1,066,765	79,623	33,878	1,285	-	(63,767)	1,117,784
Investment securities, less allowance for impairment losses	5,011	-	-	52	-	(52)	5,011
Fixed and intangible assets, less accumulated depreciation	123,927	-	-	-	-	-	123,927
Other assets	8,836	37	8	5	-	-	8,886
TOTAL ASSETS	1,365,550	143,757	38,908	12,505	1,209	(63,823)	1,498,106
LIABILITIES							
Due to the NB RB	168,028	-	4,434	-	-	-	172,462
Loans and advances from banks	67,028	525	5,095	34	10	-	72,692
Customer accounts	556,768	148,753	21,638	7,124	2	-	734,285
Debt securities issued	24,485	23	-	-	-	-	24,508
Other liabilities	1,628	43	5	35	-	271	1,982
TOTAL LIABILITIES	817,937	149,344	31,172	7,193	12	271	1,005,929
OPEN POSITION	547,613	(5,587)	7,736	5,312	1,197		

	BYR	USD 1USD= 2,156 BYR	EUR 1EUR= 2,695.22 BYR	RUB 1RUB= 73.19 BYR	Other currency	Currency undefined (incl. allowance for losses and impair- ment)	2003 BYR million Total (restated)
ASSETS							
Cash and balances with the NB RB	154,051	10,490	1,973	4,680	99	-	171,293
Loans and advances to banks, less allowance for loan losses	5,456	3,440	10,363	17,349	557	(695)	36,470
Securities held for trading	60,991	-	-	-	-	-	60,991
Securities purchased under agreements to resell	1,654	-	-	-	-	-	1,654
Loans and advances to customers, less allowance for loan losses	626,077	76,373	14,063	685	-	(71,355)	645,843
Investment securities, less allowance for impairment losses	6,639	-	-	519	-	(293)	6,865
Fixed and intangible assets, less accumulated depreciation	113,548	-	-	-	-	-	113,548
Other assets	5,720	170	11	15	-	-	5,916
TOTAL ASSETS	974,136	90,473	26,410	23,248	656	(72,343)	1,042,580
LIABILITIES							
Loans and advances from banks	85,014	30	5	80	11	-	85,140
Securities sold under agreements to repurchase	20,440	-	-	-	-	-	20,440
Customer accounts	357,782	57,862	8,810	12,323	2	-	436,779
Debt securities issued	45,129	40	-	-	-	-	45,169
Provisions	-	-	-	-	-	84,607	84,607
Other liabilities	3,966	9	1	9	-	296	4,281
TOTAL LIABILITIES	512,331	57,941	8,816	12,412	13	84,903	676,416
OPEN POSITION	461,805	32,532	17,594	10,836	643		

The Bank's principal cash flows are largely generated in Belarusian Roubles. As a result, future movements in the exchange rate between the Belarusian Roubles and US dollar will affect the carrying value of the Bank's monetary assets and liabilities.

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its products which are subject to general and specific market fluctuations. The Bank manages market risk through regular monitoring of market situation.

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.

Where appropriate, and in the case of most loans, the Bank obtains collateral or guaranties of governmental bodies and local authorities. Credit risk and the value of collateral are monitored on a continuous basis.

Commitments to extend credit represent unused portions of loans and credit lines, guarantees and 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 for approving issuance of loans, using 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)	2004 Total BYR million
ASSETS						
Cash and balances with the NB RB	133,207	-	-	-	-	133,207
Loans and advances to banks, less allowance for loan losses	477	6,168	12,210	32	(4)	18,883
Securities held for trading	89,583	-	-	-	-	89,583
Precious metals	825	-	-	-	-	825
Loans and advances to customers, less allowance for loan losses	1,181,551	-	-	-	(63,767)	1,117,784
Investment securities, less allowance for impairment losses	5,011	52	-	-	(52)	5,011
Fixed and intangible assets, less accumulated depreciation	123,927	-	-	-	-	123,927
Other assets	8,886	-	-	-	-	8,886
TOTAL ASSETS	1,543,467	6,220	12,210	32	(63,823)	1,498,106
LIABILITIES						
Due to the NB RB	172,462	-	-	-	-	172,462
Loans and advances from banks	72,692	-	-	-	-	72,692
Customer accounts	734,188	74	13	10	-	734,285
Debt securities issued	24,508	-	-	-	-	24,508
Other liabilities	1,711	-	-	-	271	1,982
TOTAL LIABILITIES	1,005,561	74	13	10	271	1,005,929
NET BALANCE SHEET POSITION	537,906	6,146	12,197	22		

						2003
	Belarus	Other CIS countries	OECD countries	Other non- OECD countries	Undefined (incl. allowance for losses and impairment)	Total BYR million (restated)
ASSETS						
Cash and balances with the NB RB	171,293	-	-	-	-	171,293
Loans and advances to banks, less allowance for loan losses	19,382	6,600	11,151	32	(695)	36,470
Securities held for trading	60,991	-	-	-	-	60,991
Securities purchased under agreements to resell	1,654	-	-	-	-	1,654
Loans and advances to customers, less allowance for loan losses	717,198	-	-	-	(71,355)	645,843
Investment securities, less allowance for impairment losses	6,930	228	-	-	(293)	6,865
Fixed and intangible assets, less accumulated depreciation	113,548	-	-	-	-	113,548
Other assets	5,916	-	-	-	-	5,916
TOTAL ASSETS	<u>1,096,912</u>	<u>6,828</u>	<u>11,151</u>	<u>32</u>	<u>(72,343)</u>	<u>1,042,580</u>
LIABILITIES						
Loans and advances from banks	85,140	-	-	-	-	85,140
Securities sold under agreements to repurchase	20,440	-	-	-	-	20,440
Customer accounts	436,779	-	-	-	-	436,779
Debt securities issued	45,169	-	-	-	-	45,169
Provisions	-	-	-	-	84,607	84,607
Other liabilities	3,985	-	-	-	296	4,281
TOTAL LIABILITIES	<u>591,513</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,903</u>	<u>676,416</u>
NET BALANCE SHEET POSITION	<u>505,399</u>	<u>6,828</u>	<u>11,151</u>	<u>32</u>		

28. UNCERTAINTY

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

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

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

29. EVENTS AFTER THE BALANCE SHEET DATE

Dividends in the amount of BYR 3,398 million for the year 2004 were declared and approved in March 2005, comprising BYR 3,392 million for ordinary shares and BYR 6 million for preference shares. In accordance with IAS 10 "Events after the balance sheet date", these dividends have not been accrued in the financial statements for the year ended 31 December 2004.