OPEN JOINT STOCK COMPANY
“Belagroprombank”

Independent Auditors’ Report

Financial Statements
For the Year ended 31 December 2005

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Open Joint Stock Company "Belagroprombank" (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as of 31 December 2005, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Belarus;
- taking such steps which are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2005 were authorised for issue by the Board of the Bank on 3 May 2006.

On behalf of the Board:

Chairman	Chief Accountant
3 May 2006	3 May 2006
Minsk	Minsk

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Open Joint Stock Company "Belagroprombank" (the "Bank") as of 31 December 2005, the related income statement and statements of cash flows and changes in equity ("the financial statements") for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 16, these financial statements do not reflect the consolidation of the financial statements of the Bank's subsidiary SPK "Ozeritskiy". In our opinion, this represents a departure from International Accounting Standard 27 «Consolidated and Separate Financial Statements", which requires financial statements of subsidiary to be consolidated. Since the subsidiary did not prepare the financial statements in accordance with International Financial Reporting Standards, we were not able to quantify the amount of misstatement.

In our opinion, except for the effect of any adjustments, as might have been determined necessary based on the fact described in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Without additionally qualifying our opinion, we 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 at initial recognition.

Without further qualifying our opinion, we draw attention to Note 3. The comparative information for 2004 was restated.

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

Deloitte & Touche

3 May 2006

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 (BYR mln)	Year ended 31 December 2004 (BYR mln) (restated)
Interest income	4, 24	264,477	232,384
Interest expense	4, 24	(150,051)	(119,270)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		114,426	113,114
Provision for impairment losses on interest bearing assets	5, 24	(16,158)	(1,201)
Impairment loss due to changes of interest rates on beneficial loans	13, 24	-	(20,443)
NET INTEREST INCOME		98,268	91,470
Net gain on operations with financial instruments at fair value through profit or loss		355	1,475
Net gain on foreign exchange operations		14,316	13,753
Fee and commission income	6, 24	105,452	79,043
Fee and commission expense	6, 24	(4,766)	(4,285)
Other income	7	3,825	6,185
NET NON-INTEREST INCOME		119,182	96,171
OPERATING INCOME		217,450	187,641
OPERATING EXPENSES	8, 24	(155,292)	(151,973)
OPERATING PROFIT		62,158	35,668
Other provisions	5	(1,605)	(14)
PROFIT BEFORE LOSS ON NET MONETARY POSITION AND INCOME TAXES		60,553	35,654
Loss on net monetary position due to inflation effect		(28,320)	(41,474)
PROFIT/ (LOSS) BEFORE INCOME TAXES		32,233	(5,820)
Income taxes expense	9,24	(31,053)	(29,368)
NET PROFIT/ (LOSS)		1,180	(35,188)

On behalf of the Board:

Chairman

3 May 2006
Minsk

Chief Accountant

3 May 2006
Minsk

The notes on pages 8-48 form an integral part of these financial statements. The Independent Auditors' Report is on page 2.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

BALANCE SHEET
AS OF 31 DECEMBER 2005

	Notes	31 December 2005 (BYR mln)	31 December 2004 (BYR mln) (restated)
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	10, 24	154,187	143,864
Loans and advances to banks, less allowance for impairment losses	11, 24	67,860	20,394
Financial instruments at fair value through profit or loss	12, 24	152,879	101,690
Precious metals in vault		1,069	891
Loans to customers, less allowance for impairment losses	13, 24	1,911,668	1,186,764
Securities available for sale	14, 24	202,600	472
Fixed assets, less accumulated depreciation	15	151,784	133,841
Current income tax assets		3,315	2,171
Other assets, less allowance for impairment losses	16	7,771	9,597
TOTAL ASSETS		2,653,133	1,599,684
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to the National Bank of the Republic of Belarus	17, 24	372,180	186,259
Loans and advances from banks	18, 24	95,424	78,507
Customer accounts	19, 24	1,454,654	793,029
Debt securities issued	20	6,889	26,469
Current income tax liabilities		1,674	2,458
Other liabilities	21, 24	3,607	1,854
Total liabilities		1,934,428	1,088,576
EQUITY:			
Share capital	22	976,525	766,711
Accumulated deficit		(257,820)	(255,603)
Total equity		718,705	511,108
TOTAL LIABILITIES AND EQUITY		2,653,133	1,599,684

On behalf of the Board:

Chairman

3 May 2006
Minsk

Chief Accountant

3 May 2006
Minsk

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Share capital (BYR mln)	Accumulated deficit (BYR mln)	Total (BYR mln)
31 December 2003		615,864	(220,409)	395,455
Share capital increase	22	150,847	-	150,847
Net loss (restated)	3	-	(35,188)	(35,188)
Dividends paid for 2003		-	(6)	(6)
31 December 2004 (restated)	3	766,711	(255,603)	511,108
Share capital increase	22	209,814	-	209,814
Net profit		-	1,180	1,180
Dividends paid for 2004		-	(3,397)	(3,397)
31 December 2005		976,525	(257,820)	718,705

On behalf of the Board:

Chairman

3 May 2006
Minsk

Chief Accountant

3 May 2006
Minsk

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OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 (BYR mln)	Year ended 31 December 2004 (BYR mln) (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before loss on net monetary position and income taxes		60,553	35,654
Adjustments for:			
Provision for impairment losses on interest bearing assets		16,158	1,201
Other provisions		1,605	14
Amortization of discount on loans to customers		(16,094)	(7,110)
Loss on recognition at fair value of beneficial loans to customers under the government programs		13,068	12,825
Impairment loss on loans to customers granted under the government programs due to reduction in interest rates		-	20,443
Depreciation		7,753	7,261
Gain on disposal of fixed assets		(3)	(791)
Change in interest accruals, net		(1,578)	737
Change in commission accruals, net		421	(738)
Cash flows from operating activities before changes in operating assets and liabilities		81,883	69,496
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Balances with the National Bank of the Republic of Belarus		(45,466)	(19,853)
Loans and advances to banks		(28,148)	19,956
Financial instruments at fair value through profit or loss		4,940	2,540
Precious metals in vault		(178)	(891)
Loans to customers		(748,796)	(766,795)
Other assets		(1,252)	(1,163)
Increase/(decrease) in operating liabilities:			
Due to the National Bank of the Republic of Belarus		186,716	186,259
Loans and advances from banks		16,914	(36,494)
Customer accounts		659,593	319,846
Other liabilities		918	(2,503)
Cash inflow/ (outflow) from operating activities before taxation		127,124	(229,602)
Income taxes paid		(32,981)	(29,322)
Net cash inflow/ (outflow) from operating activities		94,143	(258,924)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(23,820)	(19,978)
Proceeds on sale of fixed assets		96	991
Securities available for sale		(191,348)	(66)
Net cash outflow from investing activities		(215,072)	(19,053)

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 (BYR mln)	Year ended 31 December 2004 (BYR mln) (restated)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of share capital		218,139	320,520
Dividends paid		(3,397)	(6)
Repayment of debt securities issued, net		(19,623)	(22,076)
Net cash inflow from financing activities		195,119	298,438
NET INCREASE IN CASH AND CASH EQUIVALENTS		74,190	20,461
INFLATION EFFECT ON MONETARY ASSETS AND LIABILITIES (EXCEPT VALUATION ALLOWANCES)		(34,111)	(51,369)
CASH AND CASH EQUIVALENTS, beginning of year	10	205,893	236,801
CASH AND CASH EQUIVALENTS, end of year	10	245,972	205,893

Interest paid and received by the Bank during the year ended 31 December 2005 amounted to BYR 148,768 million and BYR 258,590 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2004 amounted to BYR 122,009 million and BYR 216,810 million, respectively.

On behalf of the Board:

Chairman

3 May 2006
Minsk

Chief Accountant

3 May 2006
Minsk

The notes on pages 8-48 form an integral part of these financial statements. The Independent Auditors’ Report is on page 2.

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 address of the Bank's registered office is 24 Olshevskogo Street, Minsk, Republic of Belarus.

The Bank provides 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 building of dwelling. 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, 6 Regional Banks, Minsk City Directorate, 125 local branch offices throughout the Republic of Belarus.

As of 31 December 2005 and 2004 the structure of the Bank's share capital was the following:

Shareholder	2005	2004
Ministry of Economy of the Republic of Belarus	86.87%	85.65%
Region Executive Committees	11.39%	12.71%
Other	1.74%	1.64%
Total	100.00%	100.00%

2. BASIS OF PRESENTATION

Accounting basis

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are presented in millions of Belarusian Roubles ("BYR million"), unless otherwise indicated. These financial statements are prepared on the historical cost basis except for the measurement of financial instruments at fair value through profit or loss and measurement of securities available for sale at fair value, 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 legislation. These financial statements have been prepared from the Belarusian statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statements caption.

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

Functional currency

Functional currency of these financial statements is Belarusian Rouble.

Accounting for the effects of hyperinflation

The Republic of Belarus continues to experience relatively high levels of inflation and was considered to be hyperinflationary in 2005 as defined by IAS 29. Accordingly, adjustments and reclassifications made for the purposes of IFRS presentation include 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 restatement was made using the Consumer Price Index ("CPI"), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The CPIs for the five year period ended 31 December 2005 were as follows:

Year	**% change**
2005	8%
2004	14%
2003	25%
2002	35%
2001	46%

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as of 31 December 2005. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current as of 31 December 2005) are restated by applying the relevant index. The effect of inflation on the Bank's net monetary position is included in the income statement as loss on net monetary position.

Amounts included in the income statement have been indexed by the change in the CPI based on the following assumptions:

- inflation has occurred evenly over the year;
- income and expenses have accrued evenly over the year.

The application of IAS 29 results in an adjustment to the income statement for the loss of purchasing power of the Belarusian Rouble. The loss on net monetary position arises in the period of inflation because monetary assets lose purchasing power. The loss on net monetary position is calculated as the difference arising during the reporting year after non-monetary items, including equity components and non-monetary assets and liabilities, are expressed in the measuring units current at the reporting date, whereas monetary items are not restated. Corresponding figures for the year ended 31 December 2004 have also been restated for presentation purposes for the changes in the general purchasing power of the Belarusian Rouble for the year ended 31 December 2005.

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument. Regular purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. 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 and time deposit accounts with the National Bank of the Republic of Belarus (“NB RB”) with original maturity within 90 days except minimum reserve deposits, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”) with original maturity within 90 days, except for guarantee deposits and other restricted balances, and government debt securities held for trading which may be converted to cash within a short period of time. The minimum reserve deposit required by the NB RB is not included as a cash equivalent due to restrictions on its availability (Note 10).

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 rate method. Amortized cost of loans and advances that do not have fixed maturities is calculated using the expected repayment dates per management estimates. Loans and advances to banks are carried net of any allowance for impairment losses.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss represent assets that are acquired principally for the purpose of selling them in the near term and for which there is evidence of a recent actual pattern of short-term profit-taking; or are designated to this category at initial recognition. These financial instruments are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for these financial instruments. 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 such financial instruments is recognized in the income statement.

Precious metals in vault

Precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates as of 31 December 2005 and 2004 using the BYR/USD exchange rate effective at the date. Changes in the bid prices are recorded in other income.

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. Repos and reverse repos 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 repo are retained in the financial statements and consideration received under these agreements is recorded 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 and other assets.

In the event that assets purchased under reverse repo 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.

Loans to customers

Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower.

Loans to customers with fixed maturity are subsequently measured at amortized cost using the effective interest rate method. Amortized cost of loans that do not have fixed maturities is calculated using the expected repayment dates per management estimates. Loans to customers are carried net of any allowance for impairment losses.

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 loan is issued as initial recognition adjustment. Discounting is performed using approximated market rates at inception and the adjustment is included in the income statement as reduction of interest income or netted off against fair value adjustment to contributions to share capital where the contributions represented the funds provided for the purpose of granting such loans.

Finance leases

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

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

Being a lessor, the Bank presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are capitalized at inception and amortized over the lease term.

Write-off of loans and advances

Loans and advances are written off against allowance for impairment 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 available to collect amounts due to the Bank and to sell all available collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Supervisory Board of the Bank.

Allowance for impairment losses

The Bank establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment 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 incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is recognized in the income statement and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

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

Once a financial asset or a group of similar financial assets has been written down (partially written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity, plus accrued coupon income recognized in the income statement for the period as interest income on investment securities. The Bank uses quoted market prices to determine the fair value for the Bank's securities available for sale. If such quotes do not exist, management estimation is used. Dividends received are included in dividend income in the income statement.

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 of reasonably estimating their fair value. Allowance for impairment is recognized in income statement for the period.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in profit and loss for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in profit and loss for the period. Reversals of such impairment losses on equity instruments are not recognized in income statement.

Investment in non-consolidated subsidiaries

The Bank has an investment in a 100% owned company and has ability and intent to control its operating and financial policies. Investment in non-consolidated subsidiary is accounted for at cost less impairment loss, if any.

Fixed assets

Fixed 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 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 %
Furniture and other fixed assets	5 – 25 %

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

Taxation

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

The current taxes expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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 taxes 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 recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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 realized. Deferred tax is charged or credited in the income statement, 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 income statement.

Loans from banks and customer accounts

Loans from banks and customer accounts are initially recognized at fair value, 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 income statement over the period of the borrowings using the effective interest method.

Debt securities issued

Debt securities issued represent promissory notes issued by the Bank. They are accounted for according to the same principles used for customer accounts and loans from banks.

Other provisions

Other 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.

Financial guarantees contracts and letters of credit issued

Financial guarantees contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantees contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital

Share capital is recognized at nominal value restated for the effect of inflation. Contributions burdened with obligation to grant loans on lower than market terms are recognized at an approximated fair value of respective assets as of the date of contribution. Preferred shares that are non-redeemable are classified as equity.

External costs directly attributable to the issue of new shares, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in 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” and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Republic of Belarus legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition, such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state. The Bank does not have any pension arrangements separate from the State pension system of the Republic of Belarus. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using effective interest rate method. Interest income also includes income earned on investments in securities. Commission income/expenses are recognized on an accrual basis. Other income/ expenses are recognized when they are incurred.

Foreign currency translation

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

Rates of exchange

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

	31 December 2005	**31 December 2004**
BYR/USD	2,152.00	2,170.00
BYR/EUR	2,546.35	2,955.65
BYR/RUR	74.86	77.91

Prior period restatement due to error

In the financial statements for the year ended 31 December 2004, the Bank did not recognize the impairment loss on loans granted by the Bank under the programs of the Government of the Republic of Belarus on agricultural sector financing, which resulted from the reduction in interest rates imposed by the Government. The restatement was made in the period in which the error was made as follows:

Balance sheet/Income statement item (in measuring units current as of 31 December 2005)	**Amount as per the previous report (BYR mln)**	**Amount as per current report (BYR mln)**	**Effect on the financial statements items (BYR mln)**
Loans to customers, less allowance for impairment losses	1,207,207	1,186,764	(20,443)
Impairment loss due to changes of interest rates on beneficial loans	-	(20,443)	(20,443)
Net loss for the year ended 31 December 2004	(14,745)	(35,188)	(20,443)
Accumulated deficit as of 31 December 2004	(235,160)	(255,603)	(20,443)

Reclassifications

Certain reclassifications have been made to the comparative information as of 31 December 2004 and for the year then ended to conform to the presentation as of 31 December 2005 and for the year then ended as current year presentation provides better understanding of the Bank's activities.

Nature of reclassification	**Amount (BYR mln)**	**Balance sheet/Income statement line as per the previous report**	**Balance sheet/Income statement line as per current report**
Reclassification of net gain on trading securities to interest income on securities	15,754	Net gain on trading securities	Interest income
Reclassification of net gain on trading securities to interest income on reverse repo transactions	1,529	Net gain on trading securities	Interest income
Reclassification of net gain on trading securities to interest expense on repo transactions	1,889	Net gain on trading securities	Interest expense

Restatements due to changes in IFRS

In 2005 the Bank adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

Adoption of new and revised Standards and Interpretations resulted in the following changes in accounting policies of the Bank:

- IAS 24 (revised) "Related party disclosures" – the standard has broadened criteria for identification of related parties and changed certain related party disclosures.

- According to the revised IAS 39 "Financial Instruments: Recognition and Measurement" a gain or loss on an available-for-sale financial asset shall be recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses.

Certain restatements have been made to the comparative information as of 31 December 2004 and for the year then ended to comply with the changes in IAS 24 “Related party disclosures” and IAS 39 “Financial Instruments: Recognition and Measurement” effective for the periods beginning on or after 1 January 2005. Such restatements have been applied retrospectively to the earliest financial statements period presented as follows:

Nature of restatement (in measuring units current as of 31 December 2005)	**Amount (BYR mln)**	**Balance sheet/Profit and loss account line as per the previous report**	**Balance sheet/Profit and loss account line as per current report**
Reclassification of securities available for sale to financial instruments at fair value through profit or loss	4,940	Securities available for sale, less allowance for impairment losses	Financial instruments at fair value through profit or loss
Reclassification of gain on recovery of provision for impairment losses on securities available for sale to net loss on operations with financial instruments at fair value through profit or loss	82	Provisions for losses on other transactions	Net gain on operations with financial instruments at fair value through profit or loss
Reclassification of net gain on investment securities to net gain on operations with financial instruments at fair value through profit or loss	2,836	Net gain on investment securities	Net gain on operations with financial instruments at fair value through profit or loss

As of 1 January 2005, the International Accounting Standards Board issued IFRS 4 “Insurance Contracts” (“IFRS 4”) and amended IAS 39 “Financial Instruments: Recognition and Measurement” so that financial guarantee contracts are included in insurance contracts as defined in IFRS 4. Such contracts are initially recognized at fair value and subsequently measured at the higher of the amount recognized as a provision and the amount initially recognized less cumulative amortization over the period of the contract. The effect of this amendment on the financial statements is not significant.

Effect of adoption of new and revised International Financial Reporting Standards issued, but not yet effective

The Bank made an estimation of the effect of adoption of new standards and changes made in old standards, which have not yet become effective as of 31 December 2005.

In accordance to the new version of IAS 39 “Financial Instruments: Recognition and Measurement” for the financial statements for the period starting from 1 January 2006 financial guarantees will be accounted for in accordance with IAS 39. Also, securities which do not have quoted market prices will be accounted as securities available for sale rather than as financial assets at fair value through profit or loss. In estimation of the Bank the effect of these changes in IAS 39 will not have a significant effect on the financial position and results of operations of the Bank.

In accordance with IFRS 7 “Financial Instruments: disclosure” effective from 1 January 2007 it is required that additional information on financial instruments is disclosed. The Bank estimated the effect of this standard on its financial statements and is considering modification of its accounting and reporting systems, which would provide a reliable disclosure of the required information.

4. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2005 (BYR mln)	Year ended 31 December 2004 (BYR mln)
Interest income		
Interest on loans to customers	231,209	219,327
Interest on debt securities	25,049	15,767
Loss on recognition at fair value of beneficial loans to customers under the government programs	(13,068)	(12,825)
Amortization of discount on loans to customers	16,094	7,110
Interest on reverse repo transactions	3,329	1,529
Interest on loans and advances to banks	1,766	1,412
Other interest income	98	64
Total interest income	**264,477**	**232,384**
Interest expense		
Interest on customer accounts	126,145	84,647
Interest on loans and advances from banks and NB RB	19,251	28,340
Interest on debt securities issued	2,842	4,285
Interest on repo transactions	1,812	1,889
Other interest expenses	1	109
Total interest expense	**150,051**	**119,270**
Net interest income before provision for impairment losses on interest bearing assets	**114,426**	**113,114**

5. ALLOWANCE FOR IMPAIRMENT, OTHER PROVISIONS

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

	Loans and advances to banks (BYR mln)	Loans to customers (BYR mln)	Total (BYR mln)
31 December 2003	751	77,063	77,814
(Recovery)/ provision	(409)	1,610	1,201
Write-off of assets	(289)	-	(289)
Gain on net monetary position	(49)	(9,805)	(9,854)
31 December 2004	4	68,868	68,872
Provision	-	16,158	16,158
Gain on net monetary position	-	(5,709)	(5,709)
31 December 2005	**4**	**79,317**	**79,321**

The movements in other provisions were as follows:

	Other assets (BYR mln)	Guarantees (BYR mln)	Total (BYR mln)
31 December 2003	-	320	320
Provision	-	14	14
Gain on net monetary position	-	(41)	(41)
31 December 2004	-	293	293
Provision	983	622	1,605
Gain on net monetary position	(37)	(45)	(82)
31 December 2005	**946**	**870**	**1,816**

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

6. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2005 (BYR mln)	Year ended 31 December 2004 (BYR mln)
Fee and commission income:		
Commission for transactions on customer accounts and other customer service fees	93,916	68,565
Commission on foreign exchange transactions	8,899	7,748
Commission on transactions with banks and NB RB	2,243	699
Commission on transactions with securities	394	2,031
Total fee and commission income	**105,452**	**79,043**
Fee and commission expense:		
Commission on transactions with banks	4,233	3,843
Commission on foreign exchange transactions	256	288
Commission on transactions with securities	170	82
Other fee and commission expense	107	72
Total fee and commission expense	**4,766**	**4,285**

7. OTHER INCOME

Other income comprises:

	Year ended 31 December 2005 (BYR mln)	Year ended 31 December 2004 (BYR mln)
Gain from fixed and other assets disposal	1,023	2,640
Fines and penalties received	1,180	230
Rent income	325	470
Repayment of loans previously written off	125	24
Revenue from consulting services	80	33
Income on operations with plastic cards	61	379
Other	1,031	2,409
Total other income	**3,825**	**6,185**

8. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2005 (BYR mln)	Year ended 31 December 2004 (BYR mln)
Payroll and bonuses	62,064	54,588
Social security contributions	22,476	19,876
Taxes, other than income taxes	17,750	18,539
Security expenses	9,835	8,467
Rent and public utilities payments	8,707	13,922
Other staff costs	7,893	7,543
Depreciation	7,753	7,261
Software use fees	2,856	2,957
Transportation expenses	2,795	3,198
Office expenses	2,482	3,494
Communication expenses	2,040	1,785
Professional service fees	1,708	1,867
Other expenses	6,933	8,476
Total operating expenses	**155,292**	**151,973**

9. INCOME TAXES

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2005 and 2004, tax rate for Belarusian banks was 30% for the republican tax, and 4% for the municipal tax. The rates were charged successively. Therefore, in 2005 and 2004 the combined rate was 32.8%.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax exemptions for certain income.

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 2005 and 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The tax rate used for the deferred tax calculation as of 31 December 2005 was 24% for the republican tax, and 3% for the municipal tax, the combined rate being 26.28%. These rates were imposed in 2006 (Note 29).

The tax rate used for the deferred tax calculation as of 31 December 2004 was 30% for the republican tax, and 4% for the municipal tax, the combined rate being 32.8%.

Temporary differences as of 31 December 2005 and 2004 comprise:

	31 December 2005 (BYR mln)	**31 December 2004 (BYR mln)**
Deductible temporary differences**:**		
Loans and advances to banks and customers	15,525	16,164
Fixed assets	18,965	30,273
Other assets	7,960	5,584
Other liabilities	870	293
Total deductible temporary differences	43,320	52,314
Taxable temporary differences**:**		
Accrued interest income	(6,003)	(6,884)
Other	(5)	-
Total taxable temporary differences	(6,008)	(6,884)
Net deductible temporary differences	37,312	45,430
Deferred tax assets at the combined statutory rate (26.28% for 2005 and 32.8% for 2004)	9,806	14,901
Less: valuation allowance	(9,806)	(14,901)
Net deferred tax asset	-	-

Relationships between tax expenses and accounting profit for the years ended 31 December 2005 and 2004 are explained as follows:

	Year ended 31 December 2005 (BYR mln)	**Year ended 31 December 2004 (BYR mln)**
Profit/(loss) before taxation	32,233	(5,820)
Combined statutory tax rate	32.80%	32.80%
Theoretical tax at the statutory tax rate	10,572	(1,909)
Tax effect of other permanent differences	23,143	35,586
Change in valuation allowance	(5,095)	(4,309)
Change in tax rate	2,433	-
Income taxes expense	**31,053**	**29,368**

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

Cash and balances with the NB RB comprise:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Cash on hand	65,221	64,957
Balances with the NB RB	88,966	73,156
Term deposits with the NB RB	-	5,750
Accrued interest income on sort-term deposits with the NB RB	-	1
Total cash and balances with the NB RB	**154,187**	**143,864**

The balances with the NB RB as of 31 December 2005 and 2004 included amounts of BYR 88,966 million and BYR 37,751 million, respectively, represented by the minimum reserve deposit with the NB RB. The Bank is required to maintain the reserve balance at all times.

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

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Cash and balances with the NB RB	154,187	143,864
Loans and advances to banks in OECD countries	27,872	8,780
Government debt securities held for trading	152,879	96,750
	334,938	249,394
Less minimum reserve deposit with the NB RB	(88,966)	(37,751)
Less deposits in the NB RB with maturity over 3 months	-	(5,750)
Total cash and cash equivalents	**245,972**	**205,893**

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

Loans and advances to banks comprise:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Correspondent accounts and other advances to banks	41,202	20,398
Loans under reverse repurchase agreements	23,208	-
Loans to banks	3,228	-
Accrued interest income on loans and advances to banks	226	-
	67,864	20,398
Less allowance for impairment losses	(4)	(4)
Total loans and advances to banks, less allowance for impairment losses	**67,860**	**20,394**

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As of 31 December 2005 and 2004, included in the advances to banks were BYR 215 million and BYR 234 million, respectively, placed with American Express Bank Ltd as a guarantee deposit on operations with travellers' cheques.

As of 31 December 2005 and 2004, included in the advances to banks were fixed amounts of BYR 2,018 million and BYR 4,173 million, respectively, placed as security against letters of credit issued by the Bank.

As of 31 December 2005 included in loans and advances to banks were loans under reverse repurchase agreements in the amount of BYR 23,416 million including accrued interest income of BYR 208 million with maturity within 3 months after the reporting date. The fair value of the government debt securities received as collateral under such agreements amounted to BYR 23,614 million.

As of 31 December 2005 and 2004 the maximum credit risk exposure of loans and advances to banks amounted to BYR 67,864 million and BYR 20,398 million, respectively.

12. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss comprise:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Securities held for trading:		
Short-term government bonds ("GKO")	126,064	55,936
Long-term government bonds ("GDO")	25,871	40,814
Short-term bonds of NB RB ("KONB")	944	-
Total securities held for trading:	**152,879**	**96,750**
Other securities designated to the category at initial recognition:		
Promissory notes of Belarusian banks	-	4,940
Total other securities	-	4,940
Total financial instruments at fair value through profit or loss	**152,879**	**101,690**

As of 31 December 2005 and 2004 included in value of financial instruments at fair value through profit or loss was accrued interest income in the amount of BYR 2,846 million and BYR 3,333 million, respectively.

As of 31 December 2004 included in financial instruments at fair value through profit or loss were GKO and GDO in the amount of BYR 59,819 million, which were pledged as security against the loans received from the NB RB with maturity within 2 months from the reporting date (Note 17).

13. LOANS TO CUSTOMERS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Loans to customers comprise the following:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln) (restated)
Originated loans	1,984,775	1,249,149
Net investment in finance leases	849	1,608
Accrued interest income on loans to customers	5,361	4,875
	1,990,985	1,255,632
Less allowance for impairment losses	(79,317)	(68,868)
Total loans to customers, less allowance for impairment losses	**1,911,668**	**1,186,764**

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln) (restated)
Loans collateralized by equipment and goods in turnover	837,957	633,367
Loans collateralized by guarantees of state bodies and local authorities	585,250	154,934
Loans collateralized by real estate	212,726	147,498
Loans collateralized by lien over receivables and goods	36,285	64,742
Loans collateralized by other types of collateral	38,038	433
Unsecured loans	274,519	248,175
Total originated loans to customers	**1,984,775**	**1,249,149**

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln) (restated)
Analysis by industry:		
Agriculture	1,020,869	498,770
Manufacturing	646,216	526,780
Trade	168,704	98,268
Government bodies	62,993	407
Individuals	33,103	16,133
Construction	26,082	13,079
Other	26,808	95,712
Total originated loans to customers	**1,984,775**	**1,249,149**

All loans are granted to companies operating in the Republic of Belarus, which represents significant geographical concentration in one region.

As of 31 December 2005 and 2004 the maximum credit risk exposure of loans to customers amounted to BYR 1,990,985 million and BYR 1,255,632 million, respectively.

The Bank participates in the Government programs on granting beneficial loans to agricultural sector. Under the programs since 1996 the Bank granted loans for housing construction, since 2003 - loans for the acquisition of agricultural machinery, and since 2005 – loans for reconstruction of certain categories of agricultural enterprises. Prior to 2005 these housing and machinery loans were granted at 5% and 4% annual interest rates, respectively. Since January 2005 interest rate for new and existing housing loans was reduced to 3%, and since November 2004 interest rate for new and existing machinery loans was reduced to 2%, which resulted in impairment loss on these loans in the amount of BYR 20,443 million recognized in the income statement for the year ended 31 December 2004. Loans for reconstruction were granted in 2005 at 3%.

Prior to 2005 funds for housing and machinery 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. The Decree also introduced 3 year grace period for principal repayment for all existing and emerging borrowers. In 2005 a minor part of housing loans was granted from the resources provided by the Government of the Republic of Belarus by means of contributions to share capital, and for the majority of housing loans granted from the Bank's own resources in 2005, the Government compensated to the Bank the difference between the loan rate and refinance rate of the NB RB at the date of asset recognition plus 3%. Machinery and reconstruction loans in 2005 were granted from the Bank's own resources without compensation.

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 approximated fair value using appropriate techniques 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 a market interest rate for short term corporate loans 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 amortisation of the discount is recognized as interest income in the income statement. The originated loans and received borrowings are not recognized as assets and liabilities of the Bank until the borrowings are capitalized into share capital, as the Bank is not exposed to any credit risk in respect of loans granted before the capitalisation date.

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 interest rate used to measure such loans at fair value on initial recognition. The Bank has determined the interest rate for these loans to be equal to the refinance rate of the NB RB at the date of asset recognition plus 3%.

Fair value upon initial recognition of those housing loans where the Bank receives compensation was equal to their nominal amount.

Amortized cost of the loans granted under the government programs as of 31 December 2005 and 2004 was BYR 685,225 million and BYR 129,874 million, respectively. The nominal value of the loans as of 31 December 2005 and 2004 was BYR 1,236,614 million and BYR 737,515 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 (Note 22).

The future minimum lease payments due from customers under finance leases as of 31 December 2005 and 2004 were as follows:

	31 December 2005 (BYR mln)	**31 December 2004 (BYR mln)**
Total minimum lease and maintenance payments	978	2,090
Less: unearned finance income	(129)	(482)
Net investment in finance leases	**849**	**1,608**
Current portion	370	105
Long-term portion	479	1,503
Net investment in finance leases	**849**	**1,608**

The future minimum lease payments due from customers under finance leases as of 31 December 2005 and 2004 are as follows:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Not later than one year	426	136
Later than one year not later than five years	552	1,377
Later than five years	-	577
Total future minimum lease payments	**978**	**2,090**

14. SECURITIES AVAILABLE FOR SALE

Securities available for sale comprise:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Debt securities available for sale	202,150	-
Equity securities available for sale	365	371
Investments in associates	85	101
Total securities available for sale	**202,600**	**472**

As of 31 December 2005 debt securities available for sale represent long term government bonds ("GDO") which were purchased by the Bank in accordance with the terms of government's contribution to share capital (Note 22). These securities mature in 2010-2014, coupon is payable at 10.9% per annum quarterly. Included in amount of GDO was accrued interest income in the amount of BYR 2,150 million.

As of 31 December 2005 GDO with the carrying value of BYR 113,106 million were pledged as collateral under loans received from the NB RB (Note 17).

As of 31 December 2005 and 2004 investments in associated companies were presented as follows:

	% in equity	31 December 2005 (BYR mln)	% in equity	31 December 2004 (BYR mln)
ZAO "Platezhnaya systema "Belkart" (CJSC Payments system "Belkart")	25%	85	25%	92
OAO "Centralnaya kompania Zhlobinskoj agrarnoj finansovo-promyshlennoj gruppy" (OJSC "Central company of the Zhlobin agrarian financial and industrial group")	n/a	-	33%	9
Total investments in associates		**85**		**101**

In January 2005 OAO "Centralnaya kompania Zhlobinskoj agrarnoj finansovo-promyshlennoj gruppy" merged with JSC "Zhlobinsky miasokombinat". The Bank received 692 shares of JSC "Zhlobinsky miasokombinat" with par value of BYR 12,852 each, totalling BYR 9 million, which constituted 0.05% of the share capital of the latter.

15. FIXED ASSETS, LESS ACCUMULATED DEPRECIATION

	Buildings (BYR mln)	Computer equipment (BYR mln)	Vehicles (BYR mln)	Furniture and other fixed assets (BYR mln)	Construc-tion in progress (BYR mln)	Total (BYR mln)
At cost restated for inflation						
31 December 2003	98,282	31,367	15,292	30,038	6,072	**181,051**
Additions	2,542	2,220	1,520	3,075	9,314	**18,671**
Transfers	927	-	-	-	(927)	**-**
Disposals	(161)	(875)	(770)	(1,090)	-	**(2,896)**
31 December 2004	101,590	32,712	16,042	32,023	14,459	**196,826**
Additions	806	5,065	127	4,410	15,381	**25,789**
Transfers	329	-	-	-	(329)	**-**
Disposals	(35)	(1,395)	(494)	(1,362)	-	**(3,286)**
31 December 2005	102,690	36,382	15,675	35,071	29,511	**219,329**
Accumulated depreciation						
31 December 2003	8,864	25,150	11,274	13,131	-	**58,419**
Additions	1,182	2,193	988	2,898	-	**7,261**
Disposals	(24)	(866)	(754)	(1,051)	-	**(2,695)**
31 December 2004	10,022	26,477	11,508	14,978	-	**62,985**
Charge for the year	1,252	2,169	1,031	3,301	-	**7,753**
Eliminated on disposals	(20)	(1,381)	(466)	(1,326)	-	**(3,193)**
31 December 2005	11,254	27,265	12,073	16,953	-	**67,545**
Net book value						
31 December 2005	**91,436**	**9,117**	**3,602**	**18,118**	**29,511**	**151,784**
31 December 2004	**91,568**	**6,235**	**4,534**	**17,045**	**14,459**	**133,841**

16. OTHER ASSETS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Other assets comprise:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Taxes receivable, other than income taxes	5,354	3,256
Receivables on services provided	1,569	1,990
Prepaid expenses and other debtors	1,012	2,085
Assets received through repossession of collateral	415	315
Settlements on capital investments	200	1,911
Other	167	40
	8,717	9,597
Less allowance for impairment losses on other assets	(946)	-
Total other assets, less allowance for impairment losses	**7,771**	**9,597**

Movements in allowances for impairment losses on other assets for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As of 31 December 2005 included in other assets was investment in a non-consolidated subsidiary in the amount of BYR 10 million. Private Unitary Enterprise “Ozeritskiy-Agro”, a 100% owned subsidiary set up by the Bank in November 2005, is a legal entity registered in the Republic of Belarus. The subsidiary was set up with the purpose of purchasing a loss-making agricultural enterprise under government program of supporting agricultural sector. In December 2005 the subsidiary has purchased 100% of agricultural enterprise “SPK Ozeritskiy”, which is involved in agricultural activities and operates in the Republic of Belarus. The management of the Bank did not consolidate the financial statements of the subsidiary in these financial statements as it believes that the effect of consolidation would not be material.

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

Due to the NB RB comprises the following:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Loans from the NB RB	371,975	180,471
Time deposits	-	4,788
Accrued interest expense	205	1,000
Total due to the National Bank of the Republic of Belarus	**372,180**	**186,259**

As of 31 December 2005 and 2004 loans from the NB RB were collateralized by government debt securities owned by the Bank with fair value of BYR 113,106 million (Note 14) and BYR 59,819 million (Note 12), respectively.

18. LOANS AND ADVANCES FROM BANKS

Loans and advances from banks comprise:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Loans and deposits from banks	94,988	78,285
Correspondent accounts of banks	363	152
Accrued interest expenses	73	70
Total loans and advances from banks	**95,424**	**78,507**

As of 31 December 2005 included in loans and advances from banks were loans and advances of BYR 38,038 million due to JSC "Belpromstroibank" (the Republic of Belarus), which represented 40% of total loans and advances from banks.

As of 31 December 2004, included into loans and advances from banks were loans and advances of BYR 17,247 million due to JSC "Belvnesheconombank" (the Republic of Belarus), which represented 22% of total loans and advances from banks.

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Time deposits	1,124,512	612,119
Current accounts and deposits repayable on demand	322,893	175,693
Accrued interest expense on customer accounts	7,249	5,217
Total customer accounts	**1,454,654**	**793,029**

As of 31 December 2005 and 2004, customer accounts of BYR 7,295 million and BYR 4,253 million, respectively, were held by the Bank as collateral on letters of credit issued by the Bank.

Analysis by industry:	**31 December 2005 (BYR mln)**	**31 December 2004 (BYR mln)**
Individuals	586,566	421,628
Government bodies	357,734	94,744
Manufacturing	324,699	137,889
Agriculture	84,147	57,176
Construction	41,688	26,069
Insurance and finance	27,116	31,138
Trade	9,757	9,782
Transport	3,479	1,386
Other	12,219	8,000
Accrued interest expense on customer accounts	7,249	5,217
Total customer accounts	**1,454,654**	**793,029**

As of 31 December 2005 and 2004, customer accounts of BYR 399,208 million (27% of total customer accounts) and BYR 93,976 million (12% of total customer accounts), respectively, were due to three and two customers, respectively, which represented significant concentration.

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2005 (BYR mln)	**31 December 2004 (BYR mln)**
Promissory notes issued with a discount	5,207	10,049
Interest bearing promissory notes	1,122	5,036
Interest free promissory notes	432	11,299
Accrued interest expense on debt securities issued	128	85
Total debt securities issued	**6,889**	**26,469**

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 2005 and 2004 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:

	31 December 2005 (BYR mln)	31 December 2004 (BYR mln)
Taxes payable, other than income taxes	1,348	1,025
Provision on guarantees	870	293
Payments due to contractors	462	433
Deferred income	298	32
Other	629	71
Total other liabilities	**3,607**	**1,854**

Movements in provisions on guarantees for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

22. SHARE CAPITAL

As of 31 December 2005 and 2004 the authorized, issued and fully paid share capital comprised 552,987,025,352 and 443,917,211,990 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.

2005 share capital increases included capitalizations of funds borrowed from the Government of the Republic of Belarus for the financing of the governmental housing loan program (Note 13). The nominal value of these funds was BYR 1,138 million. Contributions were recognized at an approximated fair value of the respective loans as of the dates of the Decrees on capitalization of BYR 420 million.

2005 share capital increases also comprised cash contributions of the nominal amount of BYR 217,001 million. The cash contributions included BYR 11,986 million invested by the Government of the Republic of Belarus in cash burdened with conditions of the above mentioned governmental program (the fair value of these cash contributions as restated for hyperinflation was BYR 4,379 million). These contributions also included BYR 200,000 million invested by the Government of the Republic of Belarus in cash burdened with condition to purchase long term government bonds with the total face value of BYR 200,000 million, which were recognized in the nominal amount. As of 31 December 2005 securities purchased were included in securities available for sale (Note 14). Not burdened cash contributions amounted to BYR 5,015 million were recognized in the share capital in the nominal amount.

2004 share capital increases included capitalizations of funds borrowed from the Government of the Republic of Belarus for the purpose of financing of the governmental housing and machinery loan programs (Note 13). The nominal value of these funds (before inflation) was BYR 87,141 million. Contributions were recognized at fair value of the respective loans as of the dates of the Decrees on capitalization of BYR 40,500 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 31,566 million). Not burdened cash contributions amounted to BYR 71,165 million (BYR 78,781 million as restated for hyperinflation).

The dividends declared and paid in 2005 for 2004 amounted to BYR 0.0076 per ordinary share and BYR 20 per preference share. Total amount of dividends was BYR 3,397 million.

The dividends declared subsequently to 31 December 2005 amounted to BYR 0.00328 per ordinary share and BYR 0.3 per preference share (Note 29).

As of 31 December 2005 and 2004 part of retained earnings of the Bank as per the statutory financial statements, representing the reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities, was not distributable to shareholders. This fund was created in accordance with the Bank's charter, which stipulated the retaining of profits for these purposes amounting to 25% of the Bank's share capital recorded in the Bank's statutory accounting.

23. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

As of 31 December 2005 and 2004, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2005 (BYR mln)		**31 December 2004 (BYR mln)**	
	Nominal Amount	**Risk Weighted Amount**	**Nominal Amount**	**Risk Weighted Amount**
Contingent liabilities and credit commitments				
Guarantees issued	16,021	16,021	7,741	7,741
Letters of credit	21,361	7,033	4,253	-
Commitments on credits and unused credit lines	11,643	-	8,598	-
Total contingent liabilities and credit commitments	**49,025**	**23,054**	**20,592**	**7,741**

The Bank has made a provision of BYR 870 million and BYR 293 million against commitments under guarantees issued as of 31 December 2005 and 2004 (Note 21).

Commitments on credits and unused credit lines are cancellable agreements and therefore represent no risk and accordingly no provision has been made against them as of 31 December 2005 and 2004.

Capital commitments - The Bank had no material commitments for capital expenditures outstanding as of 31 December 2005 and 2004.

Operating lease commitments - The Bank had no material commitments for leases outstanding as of 31 December 2005 and 2004.

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

Pensions and retirement plans - Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As of 31 December 2005 and 2004, 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 Bank. (This includes holding companies, subsidiaries and fellow subsidiaries);

b. associates – enterprises in which the Bank has significant influence and which are neither a subsidiary nor a joint venture 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;

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;

f. parties with joint control over the Bank;

g. joint ventures in which the Bank is a venturer; and

h. post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party to 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 2005 and 2004 the Bank had the following transactions outstanding with related parties:

	31 December 2005 (BYR mln)		31 December 2004 (BYR mln)	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Cash and balances with the National Bank of the Republic of Belarus	**88,966**	**154,187**	**78,907**	**143,864**
Loans and advances to banks	**6,546**	**67,860**	**1,676**	**20,394**
Including:				
- state entities (under common control of the State)	6,546		1,676	
Financial instruments at fair value through profit or loss	**152,879**	**152,879**	**101,601**	**101,690**
Including:				
- securities issued by government bodies	152,879		96,750	
- securities issued by banks under common control of the State			4,851	
Loans to customers, gross	**1,054,907**	**1,990,985**	**630,840**	**1,255,632**
Including:				
- subsidiary	5,810		-	
- state entities (under common control of the State)	985,925		630,241	
- government bodies	62,993		407	
- key management personnel of the Bank	179		192	
Allowance for impairment losses on loans to customers	**(42,293)**	**(79,317)**	**(35,679)**	**(68,868)**
Including:				
- subsidiaries	(116)		-	
- state entities (under common control of the State)	(41,683)		(35,669)	
- government bodies	(490)		(10)	
- key management personnel of the Bank	(4)		-	
Securities available for sale	**202,235**	**202,600**	**92**	**472**
Including:				
- securities issued by government bodies	202,150		-	
- associates	85		92	
Due from the National Bank of the Republic of Belarus	**372,180**	**372,180**	**186,259**	**186,259**
Loans and advances from banks	**52,054**	**95,424**	**33,410**	**78,507**
Including:				
- banks under common control of the State	52,054		33,410	
Customer accounts	**551,627**	**1,454,654**	**180,650**	**793,029**
Including:				
- government bodies	393,742		129,318	
- state entities (under common control of the State)	157,727		51,198	
- key management personnel of the Bank	158		134	
Guarantees issued	**5,767**	**16,021**	**1,871**	**7,741**
Including:				
- state entities (under common control of the State)	5,767		1,871	
Letters of credit	**11,766**	**21,361**	**4,172**	**4,253**
Including:				
- state entities (under common control of the State)	11,766		4,172	
Commitments on credits and unused credit lines	**2,689**	**11,643**	**1,707**	**8,598**
Including:				
- state entities (under common control of the State)	2,689		1,707	
Provision for guarantees	**311**	**870**	**73**	**293**
Including:				
- state entities (under common control of the State)	311		73	

Included in the income statement for the years ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2005 (BYR mln)		Year ended 31 December 2004 (BYR mln)	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	**96,552**	**264,477**	**88,834**	**232,384**
Including:				
- customers - state entities (under common control of the State)	95,297		88,230	
- banks - state entities (under common control of the State)	1,255		604	
Fee and commission income	**40,190**	**105,452**	**28,689**	**79,043**
Including:				
- customers - state entities (under common control of the State)	38,006		28,390	
- banks - state entities (under common control of the State)	2,184		299	
Interest expense	**57,339**	**150,051**	**32,732**	**119,270**
Including:				
- government bodies	28,404		5,778	
- banks - state entities (under common control of the State)	17,961		23,002	
- customers - state entities (under common control of the State)	10,961		3,922	
- key management personnel of the Bank	13		21	
Fee and commission expense	**4,233**	**4,766**	**3,119**	**4,285**
Including:				
- banks - state entities (under common control of the State)	4,233		3,119	
Provision for impairment losses on interest bearing assets	**9,032**	**16,158**	**1,006**	**1,201**
Including:				
- subsidiary	116		-	
- state entities (under common control of the State)	8,432		1,001	
- government bodies	490		-	
- key management personnel of the Bank	(6)		5	
Impairment loss due to changes of interest rates on beneficial loans	**-**	**-**	**6,469**	**20,443**
Including:				
- state entities (under common control of the State)	-		6,469	
Operating expenses	**1,235**	**155,292**	**1,090**	**151,973**
Including:				
- compensation of key management personnel of the Bank	1,072		1,088	
- state entities (under common control of the State)	163		2	
Income taxes expense	**31,053**	**31,053**	**29,368**	**29,368**

Compensation of key management personnel included in the table above for the years ended 31 December 2005 and 2004 represented short-term benefits.

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 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 2005 and 2004 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

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

Precious metals in vault – 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 - The carrying amount of loans and advances to banks is a reasonable estimate of their fair value.

Financial instruments at fair value through profit or loss - As of 31 December 2005 and 2004 securities held for trading are stated at fair value, determined with reference to an active market. Fair value of other securities included in this category upon initial recognition was determined with reference to an active market for those securities quoted publicly or at over-the-counter market.

Loans to customers - The fair value of loans issued under government programs on non-market terms, which were initially recognized at estimated fair value and subsequently carried at amortized cost, is significantly higher than their carrying amount. The excess of the fair value over the carrying amount is explained with the decline of the interest rates on Belarusian credit market during the recent years. However, it is not possible to obtain a reliable estimate of the fair value of such loans due to the absence of reliable data on interest rates in similar financial instruments. The fair value of other loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

Investments available for sale - Debt securities available for sale are stated at fair value. The 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 the fair value was determined by reference to market prices of securities with a similar credit risk and/or maturity, in other cases – by reference to the share in estimated equity capital of the investee. If such quotes do not exist, management estimation is used. Fair value of equity securities available for sale can not be reliably measured.

Loans and advances from banks and due from the NB RB - The carrying amount is a reasonable estimate of their fair value.

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

Debt securities issued - Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates their 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%	Loans to banks and customers secured by cash, highly liquid securities or guaranteed by the Government
0%	State debt securities denominated in BYR
0%	Letters of credit secured by customers deposits
20%	Loans and advances to banks for up to 1 year and securities issued by banks
50%	Loans to government bodies
50%	Letters of credit not secured by customers deposits
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Loans to customers
100%	Other assets
100%	Guarantees issued and similar commitments

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

Capital amounts and ratios	Actual amount (mln BYR)	For Capital Adequacy purposes (mln BYR)	Ratio for Capital Adequacy purposes %	Minimum Required Ratio %
As of 31 December 2005				
Total capital	718,705	718,705	35.95%	8%
Tier 1 capital	718,705	718,705	35.95%	4%
As of 31 December 2004				
Total capital	511,108	511,108	41.01%	8%
Tier 1 capital	511,108	511,108	41.01%	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 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, Treasury, Foreign Economic Relations Division, and Securities Division perform regular review of the Plan fulfilment and propose corrective measures, if necessary.

The analysis of assets and liabilities of the Bank by contractual maturities and interest rate risk is presented in the following table:

	Up to 1 month	**1 month to 3 months**	**3 month to 1 year**	**1 year to 5 years**	**Over 5 years**	**Overdue**	**Maturity undefined**	**31 December 2005 (BYR mln)**
ASSETS								
Loans and advances to banks, less allowance for impairment losses	15,593	11,358	1,930	-	-	-	-	28,881
Financial instruments at fair value through profit or loss	152,879	-	-	-	-	-	-	152,879
Loans to customers, less allowance for impairment losses	256,663	339,126	504,418	405,810	373,104	32,547		1,911,668
Securities available for sale	202,150	-	-	-	-	-	-	202,150
Total interest bearing assets	627,285	350,484	506,348	405,810	373,104	32,547	-	2,295,578
Cash and balances with the National Bank of the Republic of Belarus	65,221	-	-	-	-	-	88,966	154,187
Loans and advances to banks, less allowance for impairment losses	38,979	-	-	-	-	-	-	38,979
Precious metals in vault	1,069	-	-	-	-	-	-	1,069
Securities available for sale	-	-	-	450	-	-	-	450
Fixed assets, less accumulated depreciation	-	-	-	-	-	-	151,784	151,784
Current income tax assets	-	3,315	-	-	-	-	-	3,315
Other assets, less allowance for impairment losses	2,184	4,325	223	1,039	-	-	-	7,771
TOTAL ASSETS	734,738	358,124	506,571	407,299	373,104	32,547	240,750	2,653,133
LIABILITIES								
Due to the National Bank of the Republic of Belarus	91,575	280,156	449	-	-	-	-	372,180
Loans and advances from banks	73,063	-	222	21,776	-	-	-	95,061
Customer accounts	411,879	106,378	574,889	38,615	-	-	-	1,131,761
Debt securities issued	6,433	-	-	24	-	-	-	6,457
Total interest bearing liabilities	582,950	386,534	575,560	60,415	-	-	-	1,605,459
Loans and advances from banks	363	-	-	-	-	-	-	363
Customer accounts	322,893	-	-	-	-	-	-	322,893
Debt securities issued	432	-	-	-	-	-	-	432
Current income tax liabilities	-	1,674	-	-	-	-	-	1,674
Other liabilities	2,564	145	11	17	-	-	870	3,607
TOTAL LIABILITIES	909,202	388,353	575,571	60,432	-	-	870	1,934,428
Liquidity gap	(174,464)	(30,229)	(69,000)	346,867	373,104			
Interest sensitivity gap	44,335	(36,050)	(69,212)	345,395	373,104			
Cumulative interest sensitivity gap	44,335	8,285	(60,927)	284,468	657,572			
Cumulative interest sensitivity gap as a percentage of total assets	2%	-	(2%)	11%	25%			

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2004 (BYR mln)
ASSETS								
Cash and balances with the National Bank of the Republic of Belarus	1	-	5,750	-	-	-	-	5,751
Loans and advances to banks, less allowance for impairment losses	14,682	2,393	1,460	-	-	-	-	18,535
Financial instruments at fair value through profit or loss	98,140	3,501	49	-	-	-	-	101,690
Loans to customers, less allowance for impairment losses	272,228	256,330	392,443	215,519	30,444	19,800	-	1,186,764
Total interest bearing assets	385,051	262,224	399,702	215,519	30,444	19,800	-	1,312,740
Cash and balances with the National Bank of the Republic of Belarus	100,362	-	-	-	-	-	37,751	138,113
Loans and advances to banks, less allowance for impairment losses	1,305	554	-	-	-	-	-	1,859
Precious metals in vault	891	-	-	-	-	-	-	891
Securities available for sale	-	-	-	472	-	-	-	472
Fixed assets, less accumulated depreciation	-	-	-	-	-	-	133,841	133,841
Current income tax assets	-	2,171						2,171
Other assets, less allowance for impairment losses	3,594	383	5,209	359	42	10	-	9,597
TOTAL ASSETS	491,203	265,332	404,911	216,350	30,486	19,810	171,592	1,599,684
LIABILITIES								
Due to the National Bank of the Republic of Belarus	97,743	83,727	4,789	-	-	-	-	186,259
Loans and advances from banks	69,325	918	6,597	1,515	-	-	-	78,355
Customer accounts	180,089	145,304	214,218	77,725	-	-	-	617,336
Debt securities issued	6,793	8,072	305	-	-	-	-	15,170
Total interest bearing liabilities	353,950	238,021	225,909	79,240	-	-	-	897,120
Loans and advances from banks	152	-	-	-	-	-	-	152
Customer accounts	175,693	-	-	-	-	-	-	175,693
Debt securities issued	7,651	3,635	13	-	-	-	-	11,299
Current income tax liabilities	-	2,458						2,458
Other liabilities	1,538	5	4	14	-	-	293	1,854
TOTAL LIABILITIES	538,984	244,119	225,926	79,254	-	-	293	1,088,576
Liquidity gap	(47,781)	21,213	178,985	137,096	30,486			
Interest sensitivity gap	31,101	24,203	173,793	136,279	30,444			
Cumulative interest sensitivity gap	31,101	55,304	229,097	365,376	395,820			
Cumulative interest sensitivity gap as a percentage of total	2%	4%	14%	23%	25%			

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 Treasury, 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.

	31 December 2005		31 December 2004	
	BYR	**Foreign currencies**	**BYR**	**Foreign currencies**
ASSETS				
Balances with the National Bank of the Republic of Belarus	-	-	-	2.2%
Loans and advances to banks	-	2.4%	-	0.7%
Financial instruments at fair value through profit or loss	10.8%	-	20.1%	-
Loans to customers	14.3%	10.40%	19.7%	10.2%
Securities available for sale	10.9%	-	-	-
LIABILITIES				
Due to the National Bank of the Republic of Belarus	7.9%	-	14.5%	2.2%
Loans and advances from banks	7.6%	4.5%	22.9%	9.2%
Customer accounts				
-on demand deposits	0.9%	0.4%	1.8%	0.5%
- term deposits	11.6%	6.9%	17.8%	6.7%
Debt securities issued	12.8%	4.0%	19.0%	4.0%

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

Currency risk

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

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

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

	BYR and non-monetary items	**USD** 1USD= BYR 2,152	**EUR** 1EUR= BYR 2,546.35	**RUB** 1RUB=BYR 74.86	**Other currencies**	**31 December 2005 Total (BYR mln)**
ASSETS						
Cash and balances with the National Bank of the Republic of Belarus	127,723	15,635	5,741	4,608	480	154,187
Loans and advances to banks, less allowance for impairment losses	24,557	21,104	13,001	9,122	76	67,860
Financial instruments at fair value through profit or loss	152,879	-	-	-	-	152,879
Precious metals in vault	-	-	-	-	1,069	1,069
Loans to customers, less allowance for impairment losses	1,785,354	83,338	41,663	1,313	-	1,911,668
Securities available for sale	202,600	-				202,600
Fixed assets, less accumulated depreciation	151,784	-	-	-	-	151,784
Current income tax assets	3,315	-	-	-	-	3,315
Other assets, less allowance for impairment losses	7,668	90	7	6	-	7,771
TOTAL ASSETS	2,455,880	120,167	60,412	15,049	1,625	2,653,133
LIABILITIES						
Due to the National Bank of the Republic of Belarus	372,180	-	-	-	-	372,180
Loans and advances from banks	83,320	176	11,774	143	11	95,424
Customer accounts	1,194,882	203,120	47,113	9,537	2	1,454,654
Debt securities issued	6,865	24	-	-	-	6,889
Current income tax liabilities	1,674	-	-	-	-	1,674
Other liabilities	3,434	169	4	-	-	3,607
TOTAL LIABILITIES	1,662,355	203,489	58,891	9,680	13	1,934,428
OPEN CURRENCY POSITION	793,525	(83,322)	1,521	5,369	1,612	

	BYR and non-monetary items	USD 1USD= BYR 2,170	EUR 1EUR= BYR 2,955.65	RUB 1RUB=BYR 77.91	Other currencies	31 December 2004 Total (BYR mln)
ASSETS						
Cash and balances with the National Bank of the Republic of Belarus	77,143	58,646	3,654	4,150	271	143,864
Loans and advances to banks, less allowance for impairment losses	-	10,579	1,770	7,901	144	20,394
Financial instruments at fair value through profit or loss	101,690	-	-	-	-	101,690
Precious metals in vault	-	-	-	-	891	891
Loans to customers, less allowance for impairment losses	1,069,486	81,352	34,614	1,312	-	1,186,764
Securities available for sale	472	-	-	-	-	472
Fixed assets, less accumulated depreciation	133,841	-	-	-	-	133,841
Current income tax assets	2,171					2,171
Other assets, less allowance for impairment losses	9,543	40	9	5	-	9,597
TOTAL ASSETS	1,394,346	150,617	40,047	13,368	1,306	1,599,684
LIABILITIES						
Due to the National Bank of the Republic of Belarus	181,470	-	4,789	-	-	186,259
Loans and advances from banks	72,390	567	5,502	37	11	78,507
Customer accounts	601,310	160,654	23,369	7,694	2	793,029
Debt securities issued	26,444	25	-	-	-	26,469
Current income tax liabilities	2,458					2,458
Other liabilities	1,765	46	5	38	-	1,854
TOTAL LIABILITIES	885,837	161,292	33,665	7,769	13	1,088,576
OPEN CURRENCY POSITION	508,509	(10,675)	6,382	5,599	1,293	

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 periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

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 related to guarantees and letters of 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 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	31 December 2005 Total (BYR mln)
ASSETS					
Cash and balances with the National Bank of the Republic of Belarus	154,187	-	-	-	154,187
Loans and advances to banks, less allowance for impairment losses	29,128	8,600	30,105	27	67,860
Financial instruments at fair value through profit or loss	152,879	-	-	-	152,879
Precious metals in vault	1,069	-	-	-	1,069
Loans to customers, less allowance for impairment losses	1,911,668	-	-	-	1,911,668
Securities available for sale	202,600		-	-	202,600
Fixed assets, less accumulated depreciation	151,784	-	-	-	151,784
Current income tax assets	3,315	-	-	-	3,315
Other assets, less allowance for impairment losses	7,771	-	-	-	7,771
TOTAL ASSETS	2,614,401	8,600	30,105	27	2,653,133
LIABILITIES					
Due to the National Bank of the Republic of Belarus	372,180	-	-	-	372,180
Loans and advances from banks	84,607	-	6,151	4,666	95,424
Customer accounts	1,454,141	386	27	100	1,454,654
Debt securities issued	6,889	-	-	-	6,889
Current income tax liabilities	1,674	-	-	-	1,674
Other liabilities	3,607	-	-	-	3,607
TOTAL LIABILITIES	1,923,098	386	6,178	4,766	1,934,428
NET BALANCE SHEET POSITION	691,303	8,214	23,927	(4,739)	

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2004 Total (BYR mln)
ASSETS					
Cash and balances with the National Bank of the Republic of Belarus	143,864	-	-	-	143,864
Loans and advances to banks, less allowance for impairment losses	515	6,657	13,187	35	20,394
Financial instruments at fair value through profit or loss	101,690	-	-	-	101,690
Precious metals in vault	891	-	-	-	891
Loans to customers, less allowance for impairment losses	1,186,764	-	-	-	1,186,764
Securities available for sale	472	-	-	-	472
Fixed assets, less accumulated depreciation	133,841	-	-	-	133,841
Current income tax assets	2,171	-	-	-	2,171
Other assets, less allowance for impairment losses	9,597	-	-	-	9,597
TOTAL ASSETS	1,579,805	6,657	13,187	35	1,599,684
LIABILITIES					
Due to the National Bank of the Republic of Belarus	186,259	-	-	-	186,259
Loans and advances from banks	78,507	-	-	-	78,507
Customer accounts	792,924	80	14	11	793,029
Debt securities issued	26,469	-	-	-	26,469
Current income tax liabilities	2,458	-	-	-	2,458
Other liabilities	1,854	-	-	-	1,854
TOTAL LIABILITIES	1,088,471	80	14	11	1,088,576
NET BALANCE SHEET POSITION	491,334	6,577	13,173	24	

28. UNCERTAINTY

Economy of the Republic of Belarus - Currently the economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. In recent years inflation has significantly decreased, however, still it is assessed to be on a higher level. Laws and regulations defining the business environment in the Republic of Belarus are at the stage of development and subject to frequent changes. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of Belarus and other actions beyond the Bank's control. The recoverability of the Bank's assets 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 - Certain provisions of Belarusian commercial legislation and tax legislation in particular may give rise to varying interpretations and inconsistent application. In addition, as management's interpretation of legislation may differ from that of the authorities, statutory compliance may be challenged by the authorities, and as result the Bank may face additional taxes and charges and other preventive measures. The management of the Bank believes that it has already made all tax and other payments or accruals, and therefore no additional 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

Starting from 1 January 2006 the principles of taxation for the banks of the Republic of Belarus have changed. Major changes include cancellation of tax exemption for the newly established banks with foreign investments, reduction of republican tax rate from 30% to the 24%, reduction of municipal tax from 4% to 3% and inclusion of payroll expenses and depreciation charges to deductible expenses. The change will be applied prospectively.

Dividends in the amount of BYR 1,814 million for the year 2005 were declared and approved in March 2006, comprising BYR 1,814 million for ordinary shares and BYR 84 thousand for preference shares.