

**OPEN JOINT STOCK COMPANY  
“BELAGROPROMBANK”**

**Consolidated Financial Statements**  
For the year ended 31 December 2007

# OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION  
AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Belagroprombank" (the "Bank") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2007, 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 consolidated 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 consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue its business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation of the Republic of Belarus;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements for the year ended 31 December 2007 were authorized for issue on 15 May 2008 by the management of the Bank.

**On behalf of the management:**



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**Chairman**  
15 May 2008



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**Chief Accountant**  
15 May 2008

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Council of the Open Joint Stock Company “Belagroprombank”:

We have audited the accompanying consolidated financial statements of the Open Joint Stock Company “Belagroprombank” and its subsidiaries (the “Group”), which comprise the consolidated balance sheet as of 31 December 2007, and the consolidated income statement, consolidated statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

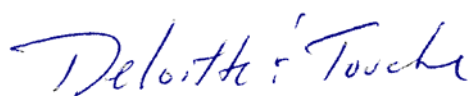
## **Opinion**

In our opinion the consolidated financial statements present fairly, in all material respects the financial position of the Group as of 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **Emphases of matter**

Without qualifying our opinion, we draw attention to Note 4, disclosing the effect of restatement of the financial statements as of 31 December 2006.

Furthermore, we draw attention to Note 32, describing uncertainties currently existing in the economic environment in the Republic of Belarus.

A handwritten signature in blue ink that reads "Deloitte & Touche". The signature is written in a cursive, flowing style.

15 May 2008

Minsk

# OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 (in millions of Belarusian Roubles)

|   | Notes  | Year ended<br>31 December<br>2007 | Year ended<br>31 December<br>2006<br>(restated) |
|---|--------|-----------------------------------|---|
| Interest income   | 5, 27  | 584,465                           | 383,168   |
| Interest expense  | 5, 27  | (413,171)                         | (247,938)                                       |
| NET INTEREST INCOME BEFORE PROVISION<br>FOR IMPAIRMENT LOSSES ON INTEREST BEARING<br>ASSETS |        | 171,294                           | 135,230   |
| Provision for impairment losses on interest bearing assets                                  | 6, 27  | (32,760)                          | (45,265)  |
| NET INTEREST INCOME   |        | 138,534                           | 89,965  |
| Net gain on foreign exchange operations   | 7, 27  | 38,381                            | 37,137  |
| Fee and commission income   | 8, 27  | 147,790                           | 134,458   |
| Fee and commission expense  | 8      | (8,701)                           | (8,859)   |
| Net loss on investments available for sale  |        | (645)                             | (451)   |
| Other income  | 9      | 19,203                            | 17,471  |
| NET NON-INTEREST INCOME   |        | 196,028                           | 179,756   |
| OPERATING INCOME  |        | 334,562                           | 269,721   |
| OPERATING EXPENSES  | 10, 27 | (251,351)                         | (203,162)                                       |
| PROFIT BEFORE OTHER PROVISIONS AND INCOME TAXES<br>EXPENSE                                  |        | 83,211                            | 66,559  |
| Other provisions  | 6, 27  | (5,565)                           | (2,595)   |
| PROFIT BEFORE INCOME TAXES  |        | 77,646                            | 63,964  |
| Income taxes expense  | 11, 27 | (25,471)                          | (22,012)  |
| NET PROFIT  |        | 52,175                            | 41,952  |
| Attributable to:  |        |                                   |   |
| Shareholders of the Bank  |        | 52,189                            | 41,952  |
| Minority interest   |        | (14)                              | -   |

**On behalf of the management:**

**Chairman**  
15 May 2008

**Chief Accountant**  
15 May 2008

The notes on pages 9-54 form an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

## CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2007 (in millions of Belarusian Roubles)

|   | Notes  | 31 December<br>2007 | 31 December<br>2006<br>(restated) |
|---|--------|---------------------|-----------------------------------|
| <b>ASSETS:</b>  |        |                     |                                   |
| Cash and balances with the National Bank of the Republic of Belarus | 12, 27 | 362,562             | 142,570                           |
| Due from banks  | 13, 27 | 69,890              | 128,454                           |
| Precious metals   |        | 1,730               | 1,271                             |
| Derivative financial instruments                                    | 14, 27 | 20,790              | 13,812                            |
| Loans to customers  | 15, 27 | 6,764,775           | 4,245,699                         |
| Investments in securities available for sale                        | 16, 27 | 540,134             | 423,107                           |
| Long-term Government bonds classified as loans and receivables      | 17, 27 | -                   | 319,199                           |
| Property, equipment and intangible assets                           | 18     | 253,148             | 190,471                           |
| Current income tax assets   |        | 3,934               | 5,377                             |
| Other assets  | 19     | 42,939              | 22,160                            |
| <b>TOTAL ASSETS</b>   |        | <b>8,059,902</b>    | <b>5,492,120</b>                  |
| <b>LIABILITIES AND EQUITY</b>                                       |        |                     |                                   |
| <b>LIABILITIES:</b>   |        |                     |                                   |
| Due to the National Bank of the Republic of Belarus                 | 20, 27 | 551,561             | 531,993                           |
| Due to banks  | 21, 27 | 1,278,642           | 767,276                           |
| Derivative financial instruments                                    | 14, 27 | 23                  | 15                                |
| Customer accounts   | 22, 27 | 3,961,052           | 2,417,787                         |
| Debt securities issued  | 23     | 40,565              | 15,744                            |
| Current income tax liabilities                                      |        | 2,330               | 1,387                             |
| Other liabilities   | 24, 27 | 51,820              | 29,980                            |
| <b>Total liabilities</b>  |        | <b>5,885,993</b>    | <b>3,764,182</b>                  |
| <b>EQUITY:</b>  |        |                     |                                   |
| Share capital   | 25     | 2,438,544           | 2,138,544                         |
| Treasury shares   |        | (35)                | (35)                              |
| Accumulated deficit   |        | (264,686)           | (410,671)                         |
| <b>Total equity attributable to shareholders of the Bank</b>        |        | <b>2,173,823</b>    | <b>1,727,838</b>                  |
| Minority interest   |        | 86                  | 100                               |
| <b>Total equity</b>   |        | <b>2,173,909</b>    | <b>1,727,938</b>                  |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                 |        | <b>8,059,902</b>    | <b>5,492,120</b>                  |

**On behalf of the management:**

**Chairman**  
15 May 2008

**Chief Accountant**  
15 May 2008

The notes on pages 9-54 form an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007 (in millions of Belarusian Roubles)

|  | Notes  | Share<br>Capital | Treasur<br>y shares | Accumu-<br>lated<br>deficit | Total equity<br>attributable<br>to<br>shareholders<br>of the Bank | Minority<br>interest | Total<br>equity  |
|--|--------|------------------|---------------------|-----------------------------|---|----------------------|------------------|
| <b>1 January 2006 (as previously reported)</b>   |        | 976,525          | (35)                | (251,999)                   | 724,491   | -                    | 724,491          |
| Restatement effect   | 4      | 689,359          | -                   | (231,047)                   | 458,312   | -                    | 458,312          |
| <b>1 January 2006 (restated)</b>   |        | 1,665,884        | (35)                | (483,046)                   | 1,182,803   | -                    | 1,182,803        |
| Share capital increase (restated)  | 25     | 472,660          | -                   | (17)                        | 472,643   | -                    | 472,643          |
| Dividends declared and paid for 2005   | 25     | -                | -                   | (1,814)                     | (1,814)   | -                    | (1,814)          |
| Distribution of equity to the Government of the Republic of Belarus related to issuing of loans at a below market interest rate (restated) | 15, 25 | -                | -                   | (30,152)                    | (30,152)  | -                    | (30,152)         |
| Compensation received from the Government related to loans issued under the Government lending programs (restated)                         | 15, 25 | -                | -                   | 62,406                      | 62,406  | -                    | 62,406           |
| Setting up of subsidiary   |        | -                | -                   | -                           | -   | 100                  | 100              |
| Net profit (restated)  |        | -                | -                   | 41,952                      | 41,952  | -                    | 41,952           |
| <b>31 December 2006 (restated)</b>   |        | <u>2,138,544</u> | <u>(35)</u>         | <u>(410,671)</u>            | <u>1,727,838</u>  | <u>100</u>           | <u>1,727,938</u> |
| Share capital increase   |        | 300,000          | -                   | -                           | 300,000   | -                    | 300,000          |
| Dividends declared and paid for 2006   | 25     | -                | -                   | (3,743)                     | (3,743)   | -                    | (3,743)          |
| Distribution of equity to the Government of the Republic of Belarus related to issuing of loans at a below market interest rate            | 15, 25 | -                | -                   | (11,961)                    | (11,961)  | -                    | (11,961)         |
| Compensation received from the Government related to loans issued under the Government lending programs                                    | 15, 25 | -                | -                   | 109,500                     | 109,500   | -                    | 109,500          |
| Net profit   |        | -                | -                   | 52,189                      | 52,189  | (14)                 | 52,175           |
| <b>31 December 2007</b>  |        | <u>2,438,544</u> | <u>(35)</u>         | <u>(264,686)</u>            | <u>2,173,823</u>  | <u>86</u>            | <u>2,173,909</u> |

On behalf of the management:

**Chairman**  
15 May 2008

**Chief Accountant**  
15 May 2008

The notes on pages 9-54 form an integral part of these consolidated financial statements.



# OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007 (in millions of Belarusian Roubles)

|   | Notes | Year ended<br>31 December<br>2007 | Year ended<br>31 December<br>2006<br>(restated) |
|---|-------|-----------------------------------|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |       |                                   |   |
| Profit before income taxes  |       | 77,646                            | 63,964  |
| Adjustments for:  |       |                                   |   |
| Provision for impairment losses on interest bearing assets                              |       | 32,760                            | 45,265  |
| Other provisions  |       | 5,565                             | 2,595   |
| Amortization of discount on loans to customers  |       | (17,389)                          | (13,606)  |
| Depreciation and amortization of property, equipment and intangible assets              |       | 13,944                            | 10,548  |
| Loss/ (gain) on disposal of property, equipment and intangible assets                   |       | 204                               | (663)   |
| Loss on disposal of securities available for sale                                       |       | 645                               | 451   |
| Write-down of inventory to net realizable value   |       | 234                               | 1,184   |
| Change in commission accruals, net  |       | 691                               | (316)   |
| Gain on derivative financial instruments, net   |       | (6,970)                           | (13,797)  |
| Translation differences, net  |       | 42,483                            | 2,240   |
| Change in interest accruals, net  |       | 8,440                             | (12,452)  |
|   |       | <u>158,253</u>                    | <u>85,413</u>                                   |
| Cash flows from operating activities before changes in operating assets and liabilities |       |                                   |   |
| Changes in operating assets and liabilities   |       |                                   |   |
| (Increase)/decrease in operating assets:  |       |                                   |   |
| Minimum reserve deposit with the National Bank of the Republic of Belarus               |       | (12,022)                          | (575)   |
| Due from banks  |       | 74,454                            | (79,057)  |
| Precious metals   |       | (459)                             | (202)   |
| Loans to customers  |       | (2,471,056)                       | (1,920,538)                                     |
| Other assets  |       | (15,225)                          | (1,181)   |
| Increase in operating liabilities:  |       |                                   |   |
| Due to the National Bank of the Republic of Belarus                                     |       | 19,569                            | 160,016   |
| Due to banks  |       | 419,286                           | 654,912   |
| Customer accounts   |       | 1,517,502                         | 954,668   |
| Other liabilities   |       | 16,682                            | 5,937   |
|   |       | <u>(293,016)</u>                  | <u>(140,607)</u>                                |
| Cash outflow from operating activities before taxation                                  |       |                                   |   |
| Income taxes paid   |       | (23,085)                          | (24,361)  |
|   |       | <u>(316,101)</u>                  | <u>(164,968)</u>                                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |       |                                   |   |
| Purchase of property, equipment and intangible assets                                   |       | (86,072)                          | (38,693)  |
| Proceeds on sale of property, equipment and intangible assets                           |       | 1,659                             | 4,395   |
| Repayment of deferred consideration for subsidiary acquisition                          |       | (829)                             | (550)   |
| Purchase of investments available for sale  |       | (519,186)                         | (300,507)                                       |
| Proceeds on sale and redemption of investments available for sale                       |       | 389,771                           | 245,958   |
| Proceeds on disposal of long-term Government bonds classified as loans and receivables  |       | 469,199                           | 152,801   |
|   |       | <u>254,542</u>                    | <u>63,404</u>                                   |
| Net cash inflow from investing activities   |       |                                   |   |

# OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007 (in millions of Belarusian Roubles)

|   | Notes | Year ended<br>31 December<br>2007 | Year ended<br>31 December<br>2006<br>(restated) |
|---|-------|-----------------------------------|---|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |       |                                   |   |
| Dividends paid  |       | (3,743)                           | (1,814)   |
| Share capital issued  |       | 150,000                           | -   |
| Compensation received from the Government related to loans issued under the Government lending programs |       | 109,500                           | 62,406  |
| Cash received from minority   |       | -                                 | 100   |
| Proceeds on issue of debt securities, net   |       | <u>24,022</u>                     | <u>8,860</u>                                    |
| Net cash inflow from financing activities   |       | <u>279,779</u>                    | <u>69,552</u>                                   |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS  |       | 218,220                           | (32,012)  |
| EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS                                |       | <u>1,615</u>                      | <u>717</u>                                      |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR  | 12    | <u>80,428</u>                     | <u>111,723</u>                                  |
| CASH AND CASH EQUIVALENTS, END OF YEAR  | 12    | <u><u>300,263</u></u>             | <u><u>80,428</u></u>                            |

Interest paid and received by the Group during the year ended 31 December 2007 amounted to BYR 404,016 million and BYR 565,734 million, respectively.

Interest paid and received by the Group during the year ended 31 December 2006 amounted to BYR 241,116 million and BYR 350,050 million, respectively.

### On behalf of the management:



**Chairman**  
15 May 2008



**Chief Accountant**  
15 May 2008

The notes on pages 9-54 form an integral part of these consolidated financial statements.

# OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 (in millions of Belarusian Roubles unless otherwise stated)

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### 1. ORGANISATION

Open Joint Stock Company “Belagroprombank” (“the Bank”) was registered in the Republic of Belarus by the National Bank of the Republic of Belarus (“National Bank”) on 3 September 1991.

The address of the Bank’s registered office is 3 Zhukova Avenue, 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, securities and currency operations. The Bank operates as the Government agent in the realization of various Government programs including financing of agricultural sector and subsidized construction of housing in rural areas.

The Bank has a special permit (license) for banking activities # 2 issued 27 October 2006 by the National Bank of the Republic of Belarus, which allows it to maintain current accounts and attract demand and time deposits from private and corporate customers, to place the attracted funds, to issue guarantees and carry out other banking operations as stipulated by the Banking Code. Bank also has license for securities trading.

The Bank’s organizational structure includes the head office, 6 regional offices, Minsk city directorate, 110 local branch offices throughout the Republic of Belarus.

As of 31 December 2007 and 2006 the structure of the Bank’s share capital was as follows:

| Shareholder   | 31 December<br>2007 | 31 December<br>2006 |
|---|---------------------|---------------------|
| State Property Committee of the Republic of Belarus | 92.27%              | -                   |
| Region Executive Committees                         | 6.66%               | 7.97%               |
| Other   | 1.07%               | 1.23%               |
| Ministry of Economy of the Republic of Belarus      | -                   | 90.80%              |
| <b>Total</b>  | <b>100.00%</b>      | <b>100.00%</b>      |

The Bank is a parent company of a group (the “Group”) which consists of the following enterprises consolidated in the financial statements:

| Name                  | Country of registration<br>and operation | The Bank’s ownership interest,<br>% |                     | Type of operation |
|-----------------------|--|-------------------------------------|---------------------|-------------------|
|                       |  | 31 December<br>2007                 | 31 December<br>2006 |                   |
| PUE “Ozeritskiy-Agro” | Republic of Belarus                      | 100%                                | 100%                | Agriculture       |
| JSC “Agroleasing”     | Republic of Belarus                      | 66.7%                               | 66.7%               | Finance leases    |

On 20 July 2006 the Bank set up the subsidiary Joint Stock Company “Agroleasing”. The Bank has contributed BYR 200 million to its share capital and its ownership interest in this subsidiary made up 66.7%. JSC “Agroleasing” is a legal entity registered in the Republic of Belarus engaged in leasing activities. Subsidiary started operations in November 2006.

In December 2007 the decision to set up new subsidiary, a consulting company “Agrobusinessconsult”, has been taken by the Supervisory Board. On 19 February 2008 the entity has been included in the unified state register of legal entities, which is considered to be the date of its incorporation. The company will be providing consulting services.

The consolidated financial statements for the year ended 31 December 2007 were authorized for issue on 15 May 2008 by the management of the Bank.

**2. BASIS OF PRESENTATION**

*Accounting basis*

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

These consolidated financial statements are presented in millions of Belarusian Roubles (“BYR”), unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention except for the measurement of certain financial instruments at fair value and accounting for certain non-monetary assets and liabilities before 31 December 2005 according to International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

In accordance with IAS 29 the economy of the Republic of Belarus was considered to be hyperinflationary during 2005 and prior years. Starting 1 January 2006, the economy of the Republic of Belarus is no longer considered to be hyperinflationary and the values of the Group’s non-monetary assets, liabilities and equity as stated in measuring units as of 31 December 2005 have formed the basis for the amounts carried forward to 1 January 2006. The restatement into measuring units as of 31 December 2005 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:

| <b>Year</b> | <b>% change</b> |
|-------------|-----------------|
| 2005        | 8%              |
| 2004        | 14%             |
| 2003        | 25%             |
| 2002        | 35%             |
| 2001        | 46%             |

The Group maintains its accounting records in accordance with the legislation of the Republic of Belarus. These consolidated financial statements have been prepared from the Belarusian statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain measurement adjustments and reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

### ***Key assumptions***

The preparation of consolidated 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from these estimates. Estimates that are particularly susceptible to change relate to the provisions for losses and impairment and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

|   | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|---|-----------------------------|-----------------------------|
| Allowance for impairment losses on loans to customers | 166,572                     | 133,812                     |
| Equity investments                                    | 673                         | 631                         |
| Derivative financial instruments (assets)             | 20,790                      | 13,812                      |
| Derivative financial instruments (liabilities)        | 23                          | 15                          |
| Unrecognized deferred tax asset                       | 2,081                       | 6,340                       |

Loans to customers are initially measured at fair value. The estimation of fair value of the loans involves the exercise of significant judgment. The Group estimates the market interest rates for different type of loans. For some of the loans estimation involves use of alternative instruments with similar characteristics.

Loans to customers and due from banks are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment. The Group estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Group's loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

The Group considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future income statement and its balance sheet. The Group's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Derivative financial instruments, representing foreign currency forwards do not have an active market and are measured using interest rates parity model. Fair values are determined using the interbank market rates applicable for each currency and exchange rates existing in the Republic of Belarus as inputs. Calculation is based on the assumption that these factors provide reliable basis for assessment of fair forward rate. These determinations are supplemented by the application of management judgment.

The Group considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets and liabilities reported on its balance sheet as well as its profit/(loss) could be material.

A deferred tax asset is recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Estimation of probabilities is based on management estimation of future taxable profit and involves the exercise of significant management judgment from the Group. Taxation is discussed in Note 3 and Note 11.

### ***Functional currency***

The functional currency of entities of the Group is the currency of the Republic of Belarus – Belarusian Rouble.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Bank and the entities controlled by the Bank (its subsidiaries) made as of the end of each period. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The equity attributable to equity holders of the parent and net income/ loss attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Bank.

All significant transactions, balances, income and expenses on transactions with the subsidiaries are eliminated on consolidation.

### ***Recognition and measurement of financial instruments***

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at 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 with original maturity within 90 days, 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, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of the Republic of Belarus is not included as a cash equivalent due to restrictions on its availability.

### ***Precious metals***

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

### ***Due from banks***

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Balances due from banks with fixed maturity are subsequently measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks are carried net of allowance for impairment losses, if any.

### ***Repurchase and reverse repurchase agreements***

The Group 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 Group 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 consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the consolidated 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.

### ***Derivative financial instruments***

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivatives entered into by the Group include foreign currency forwards.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Fair values for foreign currency contracts which do not have quoted prices available fair values are obtained from the interest rates parity model, using the interbank market rates applicable for each currency and exchange rates existing in the Republic of Belarus as assumptions. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the consolidated income statement for the period in which they arise in net gain on foreign exchange operations.

### ***Loans to customers***

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs.

The difference between the amount of cash consideration given and the fair value of loans issued at a below market interest rate is recognized in the period the loan is issued as initial recognition adjustment. Discounting is performed using approximate market rates at inception and the adjustment is recognized in the consolidated income statement, or in the consolidated statement of changes in equity as distribution of equity to the Government of the Republic of Belarus for loans granted under the Government programs.

Where applicable the Group recognizes commitments to issue loans at rates lower than market at fair value with a corresponding debit to the consolidated income statement, or, for loan commitments under Government programs, to the consolidated statement of changes in equity as distribution of equity to the Government. Fair value of commitments to issue loans at rates lower than market is calculated as the difference between the nominal amount of the loan commitment and the discounted future cash flows at the planned loan issue date. Subsequently the difference, if any, between the fair value of the loan commitment and initial recognition adjustment on the loan issued is recognized in the consolidated income statement.

Subsequently loans to customers are measured at amortized cost using the effective interest rate method.

Where the Bank receives from the Government compensation generally being a difference between the interest rate paid by the borrowers per loan agreement issued under the Government lending programs and a current refinance rate of the National bank of Republic of Belarus plus 3%, such proceeds are recognized in the consolidated statement of changes in equity as compensation received from the Government related to loans issued under the Government lending programs in the period when they are received, unless the loan agreements contain the clause permitting the Group to charge a higher interest rate to the borrower if the compensation is not received, in which case the compensation is recognized as interest income in the consolidated income statement.



### ***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 Group and to sell all available collateral. In accordance with the Bank's policy, loans may only be written off with the approval of the Supervisory Board of the Bank.

Subsequent recoveries of amounts previously written off are recognized in other income.

### ***Allowance for impairment losses***

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are 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. For financial assets carried at cost, the impairment losses are 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 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 impairment losses is charged to the consolidated income statement and the total of impairment losses is deducted in arriving at assets as shown in the consolidated balance sheet. Factors that the Group 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.

The Group accounts for impairment losses on financial assets at amortized cost using allowance account, for financial assets measured at cost through direct write off.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative 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.

### ***Finance leases***

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

The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

### ***Operating leases***

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

Lease payments/income under operating leases are recognized as expenses/income on a straight-line basis over the lease term and included in operating expenses/income.

### ***Investments available for sale***

Investments 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 until sold when gain/loss previously recorded in equity recycles through the consolidated income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest rate method, which are recognized directly in the consolidated income statement. The Group uses market prices to determine the fair value for the Group's debt investments available for sale. Dividends received are included in dividend income in the consolidated income statement.

Non-marketable equity securities are stated at cost less impairment losses, if any, unless fair value can be reliably measured. 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 the consolidated income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the consolidated income statement.

### ***Property, equipment and intangible assets***

Property, equipment and intangible assets, acquired after 1 January 2006 are carried at historical cost less accumulated depreciation and recognized impairment loss, if any. Property, equipment and intangible assets, acquired before 1 January 2006 are carried at historical cost restated for inflation less accumulated depreciation and recognized impairment loss, if any. 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 property, equipment and intangible assets is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. It 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, other equipment and intangible assets | 5 – 25 %  |

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

The carrying amounts of property, equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses.

After the recognition of an impairment loss the depreciation charge for property, equipment and intangible 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 tax expense.

The current taxes expense is based on taxable profit for the year and is computed in accordance with legislation. 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 Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated 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. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

- The Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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 consolidated 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 Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

## ***Due to banks and customers***

Balances due to banks and customers are initially recognized at fair value. Subsequently amounts due at fixed maturities are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

### ***Debt securities issued***

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

### ***Provisions***

Provisions are recognized when the Group 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 issued and letters of credit***

Financial guarantees contracts and letters of credit issued by the Group are credit guarantees 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 under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” 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***

Contributions to share capital, made before 1 January 2006 are recognized at their cost restated for inflation. Contributions to share capital after 1 January 2006 are recognized at cost. Non-cash contributions are included into the share capital at fair value of the contributed assets.

Treasury shares are recognized at cost. Treasury shares repurchased before 1 January 2006 are carried at cost restated for inflation.

Dividends 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 IAS 10 “Events After the Balance Sheet Date” and disclosed accordingly.

### ***Retirement and other benefit obligations***

In accordance with the requirements of Belarusian legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. 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 pension funds. The Group does not have any pension arrangements separate from the State pension system of the Republic of Belarus. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

### ***Interest income and expense***

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly 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. Interest income also includes income earned on investments in securities available for sale.

### ***Fee income and expense***

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided. Other income is credited to consolidated income statement when the related transactions are completed.

### ***Foreign currency translation***

The financial statements of the Group are presented in BYR – the currency of the primary economic environment in which the entity operates (its functional currency). Monetary assets and liabilities denominated in currencies other than the Group’s functional currency (foreign currencies) are translated into BYR at the appropriate rate of exchange prevailing 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 Group in the preparation of the consolidated financial statements are as follows:

|         | <b>31 December 2007</b> | <b>31 December 2006</b> |
|---------|-------------------------|-------------------------|
| BYR/USD | 2,150.00                | 2,140.00                |
| BYR/EUR | 3,166.73                | 2,817.31                |
| BYR/RUB | 87.61                   | 81.13                   |

### ***Offset of financial assets and liabilities***

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

### ***Adoption of new and revised International Financial Reporting Standards***

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and IFRIC of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2007. The adoption of these new and revised standards and interpretations has not resulted in significant changes to the Group’s accounting policies that have affected the amounts reported for the current or prior years except for the effect of application of IFRS 7 “Financial Instruments: Disclosure” (“IFRS 7”).

IFRS 7 is effective for the annual period beginning on or after 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. Adoption of IFRS 7 did not affect the classification and measurement of Group’s financial instruments in the consolidated financial statements. Additional information was disclosed in the consolidated financial statements for the current and comparative reporting periods as required by IFRS 7.

In August 2005, the IASB issued an amendment, “Capital Disclosures”, to IAS 1 “Presentation of Financial Statements”. It requires disclosures about an entity’s capital and the way it is managed. This amendment is also effective for annual periods beginning on or after 1 January 2007.

At the date of preparation of these consolidated financial statements the following standards and interpretations were issued but not yet effective:

| <b>Standard/interpretation</b>   | <b>Effective for the years beginning on or after</b> |
|--|--|
| IFRS 8 “Operating Segments”  | 1 January 2009                                       |
| IFRIC 11 “IFRS 2: Members’ Shares in Co-operative Entities and Similar Instruments”                          | 1 March 2007   |
| IFRIC 12 “ Service Concession Arrangements ”   | 1 January 2008                                       |
| IFRIC 13 “Customer Loyalty Programs”   | 1 July 2008  |
| IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” | 1 January 2008                                       |
| IAS 23 (revised) “Borrowing costs”   | 1 January 2009                                       |
| IFRS 3 (revised) “Business Combinations”   | 1 July 2009  |
| IAS 27 (revised) “Consolidated and Separate Financial Statements”  | 1 July 2009  |

The Group anticipates that new standards and interpretations will have no material financial impact on the financial statements of the Group.

#### **4. PRIOR PERIOD RESTATEMENTS**

In 2007 the Group discovered an error in the consolidated financial statements for the year ended 31 December 2006 related to determination of market interest rate for housing loans (Note 15). Previously the Group considered loans without compensation from the Government to be issued at a below market interest rate and loans with compensation to be issued at market rate. In 2007 the Group concluded that due to the unique nature of the group of recipients of these housing loans and characteristics of these loans, both compensated and non-compensated, the contractual interest rate is the market rate for such loans. As a result it affected initial recognition and subsequent measurement of housing loans, related contributions to share capital, government bonds received as contribution to share capital, provisions for losses on onerous contracts and government grants recognized in respect of the housing loans program in the consolidated financial statements for the year ended 31 December 2006. Compensation, which was previously regarded as part of effective interest rate of the loan was recognized as contribution to equity from the Government in the consolidated statement of changes in equity in the period when it was received as it is not a part of the contractual cash flows on the loan agreements and is received from controlling shareholder of the Group.

In 2007 the Group also discovered an error related to loans issued at a below market interest rate under the Government programs other than housing, for which the Group received compensation from the Government (Note 15). The effective interest rate for such loans was considered to include the compensation, and initial fair value and subsequent amortized cost of such loans were considered to approximate their nominal amount. Since the compensation on these loans is not a part of the contractual cash flows on the loan agreements and is received from the controlling shareholder of the Group, it should be recognized as a contribution to equity from the Government in the consolidated statement of changes in equity in the period when it is received. The Group retrospectively adjusted such loans to the amount of contractual cash flows discounted at estimated market rate.

Retrospective restatement was performed in the financial statements for the year ended 31 December 2007. The restatement effect as of 31 December 2006 is as follows:

| <b>Consolidated balance sheet/ consolidated income statement item</b> | <b>Amount as per the previous report</b> | <b>Effect on the consolidated financial statements items</b> | <b>Amount as per current report</b> |
|---|--|--|-------------------------------------|
| Loans to customers  | 3,712,374                                | 533,325  | 4,245,699                           |
| Long-term Government bonds classified as loans and receivables        | -  | 319,199  | 319,199                             |
| Other assets  | 29,605                                   | (7,445)  | 22,160                              |
| Total assets  | 4,647,041                                | 845,079  | 5,492,120                           |
| Other liabilities   | 40,354                                   | (10,374)   | 29,980                              |
| Share capital   | 1,033,130                                | 1,105,414  | 2,138,544                           |
| Accumulated deficit   | (160,710)                                | (249,961)  | (410,671)                           |
| Total equity  | 872,485                                  | 855,453  | 1,727,938                           |
| Interest income   | 436,402                                  | (53,234)   | 383,168                             |
| Net profit  | 93,120                                   | (51,168)   | 41,952                              |

The restatement effect as of 1 January 2006, the earliest date presented in these consolidated financial statements, is as follows:

| <b>Consolidated balance sheet/ consolidated statement of changes in equity</b> | <b>Amount as per the previous report</b> | <b>Effect on the consolidated financial statements items</b> | <b>Amount as per current report</b> |
|--|--|--|-------------------------------------|
| Share capital  | 976,525                                  | 689,359  | 1,665,884                           |
| Accumulated deficit  | (251,999)                                | (231,047)  | (483,046)                           |

## 5. NET INTEREST INCOME

Net interest income comprises:

|  | Year ended<br>31 December 2007 | Year ended<br>31 December 2006 |
|--|--------------------------------|--------------------------------|
| <b>Interest income</b>   |                                |                                |
| Interest on loans to customers   | 521,827                        | 330,136                        |
| Interest on debt securities  | 58,729                         | 51,299                         |
| Interest on due from banks   | 3,597                          | 1,544                          |
| Other interest income  | 312                            | 189                            |
|  | <hr/>                          | <hr/>                          |
| <b>Total interest income</b>   | <b>584,465</b>                 | <b>383,168</b>                 |
| <b>Interest expense</b>  |                                |                                |
| Interest on customer accounts  | 263,463                        | 163,696                        |
| Interest on due to banks   | 144,420                        | 82,466                         |
| Interest on debt securities issued   | 2,648                          | 682                            |
| Other interest expense   | 2,640                          | 1,094                          |
|  | <hr/>                          | <hr/>                          |
| <b>Total interest expense</b>  | <b>413,171</b>                 | <b>247,938</b>                 |
| <b>Net interest income before provision for impairment losses on interest bearing assets</b> | <b>171,294</b>                 | <b>135,230</b>                 |
|  | <hr/> <hr/>                    | <hr/> <hr/>                    |

## 6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

|                     | Due from<br>banks | Loans<br>to customers | Total          |
|---------------------|-------------------|-----------------------|----------------|
| 31 December 2005    | 4                 | 88,835                | 88,839         |
| Provision           | -                 | 45,265                | 45,265         |
| Write-off of assets | -                 | (288)                 | (288)          |
|                     | <hr/>             | <hr/>                 | <hr/>          |
| 31 December 2006    | 4                 | 133,812               | 133,816        |
| Provision           | -                 | 32,760                | 32,760         |
|                     | <hr/>             | <hr/>                 | <hr/>          |
| 31 December 2007    | <b>4</b>          | <b>166,572</b>        | <b>166,576</b> |
|                     | <hr/> <hr/>       | <hr/> <hr/>           | <hr/> <hr/>    |



The movements in other provisions were as follows:

|                                     | <b>Other<br/>assets</b> | <b>Guarantees<br/>and other<br/>commitments</b> | <b>Total</b>        |
|-------------------------------------|-------------------------|---|---------------------|
| 31 December 2005                    | 946                     | 870   | 1,816               |
| (Recovery of provision) / provision | <u>(946)</u>            | <u>3,541</u>                                    | <u>2,595</u>        |
| 31 December 2006                    | -                       | 4,411   | 4,411               |
| Provision                           | <u>565</u>              | <u>5,000</u>                                    | <u>5,565</u>        |
| 31 December 2007                    | <u><u>565</u></u>       | <u><u>9,411</u></u>                             | <u><u>9,976</u></u> |

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

## 7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

|  | <b>Year ended<br/>31 December<br/>2007</b> | <b>Year ended<br/>31 December<br/>2006</b> |
|--|--|--|
| Dealing, net   | 80,864                                     | 39,377                                     |
| Translation differences, net                         | <u>(42,483)</u>                            | <u>(2,240)</u>                             |
| <b>Total net gain on foreign exchange operations</b> | <u><u>38,381</u></u>                       | <u><u>37,137</u></u>                       |

## 8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

|  | Year ended<br>31 December<br>2007 | Year ended<br>31 December<br>2006 |
|--|-----------------------------------|-----------------------------------|
| <b>Fee and commission income:</b>  |                                   |                                   |
| Commission for transactions on customer accounts and other customer service fees | 141,339                           | 126,861                           |
| Commission on foreign exchange transactions                                      | 4,370                             | 2,622                             |
| Other fee and commission income  | <u>2,081</u>                      | <u>4,975</u>                      |
| <b>Total fee and commission income</b>   | <u><u>147,790</u></u>             | <u><u>134,458</u></u>             |
| <b>Fee and commission expense:</b>   |                                   |                                   |
| Commission on transactions with clients  | 3,162                             | 2,354                             |
| Commission on cash collection  | 1,632                             | 4,140                             |
| Commission on transactions with banks  | 1,589                             | 1,253                             |
| Commission on foreign exchange transactions                                      | 327                               | 175                               |
| Commission on transactions with securities                                       | 130                               | 79                                |
| Other fee and commission expense   | <u>1,861</u>                      | <u>858</u>                        |
| <b>Total fee and commission expense</b>  | <u><u>8,701</u></u>               | <u><u>8,859</u></u>               |

## 9. OTHER INCOME

Other income comprises:

|  | Year ended<br>31 December<br>2007 | Year ended<br>31 December<br>2006 |
|--|-----------------------------------|-----------------------------------|
| Revenue on agricultural activities earned by subsidiary PUE "Ozeritsky-Agro" | 16,656                            | 12,553                            |
| Fines and penalties received   | 518                               | 677                               |
| Income from operating leases   | 443                               | 285                               |
| Net gain from sale of property, equipment and other tangible assets          | -                                 | 737                               |
| Other  | <u>1,586</u>                      | <u>3,219</u>                      |
| <b>Total other income</b>  | <u><u>19,203</u></u>              | <u><u>17,471</u></u>              |

## 10. OPERATING EXPENSES

Operating expenses comprise:

|   | Year ended<br>31 December<br>2007 | Year ended<br>31 December<br>2006 |
|---|-----------------------------------|-----------------------------------|
| Payroll and bonuses   | 92,326                            | 83,452                            |
| Social security contributions                                     | 32,221                            | 27,083                            |
| Taxes, other than income tax                                      | 25,361                            | 19,551                            |
| Utilities, rentals and maintenance                                | 15,582                            | 10,152                            |
| Depreciation and amortization                                     | 13,944                            | 10,548                            |
| Security expenses   | 13,564                            | 11,286                            |
| Other short-term employee benefits                                | 11,426                            | 6,512                             |
| Raw materials and inventory consumed in agricultural activities   | 8,236                             | 7,228                             |
| Expenses on maintenance of banking software                       | 6,487                             | 2,214                             |
| Stationery and other office expenses                              | 5,586                             | 4,587                             |
| Professional services   | 3,570                             | 2,422                             |
| Charity   | 3,295                             | 456                               |
| Vehicles maintenance and fuel                                     | 3,156                             | 2,659                             |
| Communications and postage  | 2,422                             | 1,958                             |
| Write-down of inventory to net realizable value                   | 234                               | 1,184                             |
| Net loss on disposal of property, equipment and intangible assets | 204                               | -                                 |
| Other expenses  | 13,737                            | 11,870                            |
| <b>Total operating expenses</b>                                   | <b>251,351</b>                    | <b>203,162</b>                    |

## 11. INCOME TAXES

The Group provides for current taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2007 and 2006, tax rate for Belarusian banks and companies was 24% for the republican tax, and 3% for the municipal tax. The rates were charged successively. Therefore, in 2007 and 2006 the combined rate was 26.28%. PUE "Ozeritskiy-Agro" was not subject to income taxes.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and tax exemptions for certain income. Major sources of non-deductible expenses include expenses over prescribed norms, fines and penalties, branches losses. Major amounts of non-taxable income relate to operations with securities issued by the Government.

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 2007 and 2006 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2007 and 2006 comprise:

|   | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|---|-----------------------------|-----------------------------|
| Deductible temporary differences:                         |                             |                             |
| Property, equipment and intangible assets                 | 50,692                      | 21,123                      |
| Other liabilities   | 16,541                      | 10,866                      |
| Other assets  | 14,168                      | 10,234                      |
| Loans to customers  | -                           | 11,254                      |
| Derivatives   | -                           | 15                          |
|   | <hr/>                       | <hr/>                       |
| <b>Total deductible temporary differences</b>             | <b>81,401</b>               | <b>53,492</b>               |
| Taxable temporary differences:                            |                             |                             |
| Loans to customers  | (32,786)                    | -                           |
| Derivative financial instruments                          | (20,007)                    | (13,812)                    |
| Accrued interest and commission income                    | (19,942)                    | (13,525)                    |
| Due to banks  | (749)                       | (1,930)                     |
| Other assets  | -                           | (101)                       |
|   | <hr/>                       | <hr/>                       |
| <b>Total taxable temporary differences</b>                | <b>(73,484)</b>             | <b>(29,368)</b>             |
|   | <hr/>                       | <hr/>                       |
| <b>Net deductible temporary differences</b>               | <b>7,917</b>                | <b>24,124</b>               |
| Deferred tax assets at the combined statutory rate 26.28% | 2,081                       | 6,340                       |
| Less deferred tax assets not recognized                   | (2,081)                     | (6,340)                     |
|   | <hr/>                       | <hr/>                       |
| <b>Net deferred tax asset</b>                             | <b>-</b>                    | <b>-</b>                    |

Relationships between tax expenses and accounting profit for the years ended 31 December 2007 and 2006 are explained as follows:

|  | <b>Year ended<br/>31 December<br/>2007</b> | <b>Year ended<br/>31 December<br/>2006</b> |
|--|--|--|
| Profit before income taxes                     | <hr/> <hr/> 77,646                         | <hr/> <hr/> 63,964                         |
| Tax at the statutory tax rate (26.28%)         | 20,405                                     | 16,810                                     |
| Tax effect of permanent differences            | 9,325                                      | 8,668                                      |
| Effect of change in valuation allowance        | (4,259)                                    | (3,466)                                    |
|  | <hr/>                                      | <hr/>                                      |
| <b>Income taxes expense (current)</b>          | <b>25,471</b>                              | <b>22,012</b>                              |
|  | <hr/> <hr/>                                | <hr/> <hr/>                                |
| <b>Deferred tax assets not recognized</b>      | <b>Year ended<br/>31 December<br/>2007</b> | <b>Year ended<br/>31 December<br/>2006</b> |
| At beginning of the period                     | 6,340                                      | 9,806                                      |
| Decrease in deferred tax assets not recognized | (4,259)                                    | (3,466)                                    |
|  | <hr/>                                      | <hr/>                                      |
| <b>At end of the period</b>                    | <b>2,081</b>                               | <b>6,340</b>                               |
|  | <hr/> <hr/>                                | <hr/> <hr/>                                |

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

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

|  | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|--|-----------------------------|-----------------------------|
| Cash   | 170,966                     | 71,304                      |
| Balances with the National Bank of the Republic of Belarus                       | <u>191,596</u>              | <u>71,266</u>               |
| <b>Total cash and balances with the National Bank of the Republic of Belarus</b> | <u><u>362,562</u></u>       | <u><u>142,570</u></u>       |

The balances with the National Bank as of 31 December 2007 and 2006 included minimum reserve deposit amounted to BYR 82,933 million and BYR 70,911 million, respectively. The Bank is required to maintain the minimum reserve deposit at all times.

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

|   | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|---|-----------------------------|-----------------------------|
| Cash and balances with the National Bank            | 362,562                     | 142,570                     |
| Due from banks in OECD countries                    | <u>20,634</u>               | <u>8,769</u>                |
| Total cash and cash equivalents                     | 383,196                     | 151,339                     |
| Less minimum reserve deposit with the National Bank | <u>(82,933)</u>             | <u>(70,911)</u>             |
| <b>Total cash and cash equivalents</b>              | <u><u>300,263</u></u>       | <u><u>80,428</u></u>        |

## 13. DUE FROM BANKS

Due from banks comprise:

|  | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|--|-----------------------------|-----------------------------|
| Loans and term deposits from banks           | 24,995                      | 95,718                      |
| Correspondent accounts and advances to banks | 44,899                      | 32,730                      |
| Loans under reverse repurchase agreements    | <u>-</u>                    | <u>10</u>                   |
|  | 69,894                      | 128,458                     |
| Less allowance for impairment losses         | <u>(4)</u>                  | <u>(4)</u>                  |
| <b>Total due from banks</b>                  | <u><u>69,890</u></u>        | <u><u>128,454</u></u>       |

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

As of 31 December 2007 and 2006, correspondent accounts and advances to banks included fixed amounts of BYR 1,870 million and BYR 4,966 million placed as guarantee deposits on letters of credit, operations with plastic cards and travel checks, and settlements with international payment systems.

As of 31 December 2006 loans under reverse repurchase agreements were represented by short term loans granted to Belarusian banks with maturity up to 30 days which are collateralized by short term Government bonds with fair value of BYR 10 million.

#### 14. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments as of 31 December 2007 comprised the following:

|  | Nominal<br>amount (in units of<br>currency to be purchased) | Fair value    |             |
|--|---|---------------|-------------|
|  |   | Asset         | Liability   |
| <b>Foreign currency contracts (forwards and spots)</b> |   |               |             |
| RUR/USD  | RUR 122,618,000   | -             | (11)        |
| USD/BYR  | USD 110,000,000   | 1,996         | (12)        |
| EUR/USD  | EUR 2,000,000   | 57            | -           |
| EUR/BYR  | EUR 86,860,000  | <u>18,737</u> | <u>-</u>    |
| <b>Total derivative financial instruments</b>          |   | <u>20,790</u> | <u>(23)</u> |

Derivative financial instruments as of 31 December 2006 comprised the following:

|  | Nominal<br>amount (in units of<br>currency to be purchased) | Fair value    |             |
|--|---|---------------|-------------|
|  |   | Asset         | Liability   |
| <b>Foreign currency contracts (forwards and spots)</b> |   |               |             |
| EUR/BYR  | EUR 110,000,000   | 13,805        | -           |
| USD/BYR  | USD 14,500,000  | -             | (13)        |
| BYR/USD  | BYR 1,000,000,000   | -             | -           |
| USD/EUR  | USD 7,113,320   | 7             | -           |
| EUR/USD  | EUR 2,300,000   | <u>-</u>      | <u>(2)</u>  |
| <b>Total derivative financial instruments</b>          |   | <u>13,812</u> | <u>(15)</u> |

#### 15. LOANS TO CUSTOMERS

Loans to customers comprise:

|                                      | 31 December 2007 | 31 December 2006 |
|--------------------------------------|------------------|------------------|
| Originated loans                     | 6,887,219        | 4,369,337        |
| Net investment in finance lease      | <u>44,128</u>    | <u>10,174</u>    |
|                                      | 6,931,347        | 4,379,511        |
| Less allowance for impairment losses | <u>(166,572)</u> | <u>(133,812)</u> |
| <b>Total loans to customers</b>      | <u>6,764,775</u> | <u>4,245,699</u> |

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

Loans, grouped by the type of collateral and by sector are presented as follows:

|  | <b>31 December 2007</b> | <b>31 December 2006</b> |
|--|-------------------------|-------------------------|
| Loans collateralized by equipment and goods in turnover                  | 2,292,602               | 1,447,541               |
| Loans collateralized by real estate                                      | 2,285,811               | 1,046,108               |
| Loans collateralized by guarantees of state bodies and local authorities | 1,447,960               | 1,108,554               |
| Loans collateralized by liens over receivables and goods                 | 542,985                 | 115,280                 |
| Loans collateralized by cash   | 60,332                  | 39,125                  |
| Loans collateralized by other types of collateral                        | 120,663                 | 168,877                 |
| Unsecured loans  | 180,994                 | 454,026                 |
|  | <u>6,931,347</u>        | <u>4,379,511</u>        |
| Less allowance for impairment losses                                     | <u>(166,572)</u>        | <u>(133,812)</u>        |
| <b>Total loans to customers</b>  | <u><u>6,764,775</u></u> | <u><u>4,245,699</u></u> |

|                                      | <b>31 December 2007</b> | <b>31 December 2006</b> |
|--------------------------------------|-------------------------|-------------------------|
| <b>Analysis by sector:</b>           |                         |                         |
| Agriculture                          | 3,854,520               | 2,481,347               |
| Manufacturing                        | 1,802,391               | 1,238,820               |
| Trade                                | 359,576                 | 311,736                 |
| Individuals                          | 300,454                 | 141,149                 |
| Construction                         | 150,161                 | 70,859                  |
| Government bodies                    | 85,287                  | 68,923                  |
| Other                                | 378,958                 | 66,677                  |
|                                      | <u>6,931,347</u>        | <u>4,379,511</u>        |
| Less allowance for impairment losses | <u>(166,572)</u>        | <u>(133,812)</u>        |
| <b>Total loans to customers</b>      | <u><u>6,764,775</u></u> | <u><u>4,245,699</u></u> |

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

As of 31 December 2007 loans with the carrying amount of BYR 32,935 million were pledged to secure liabilities on debt securities issued (Note 23).

Loans to individuals comprise the following products:

|                                      | <b>31 December 2007</b> | <b>31 December 2006</b> |
|--------------------------------------|-------------------------|-------------------------|
| Consumer loans                       | 253,514                 | 127,030                 |
| Mortgage loans                       | 46,940                  | 14,119                  |
|                                      | <u>300,454</u>          | <u>141,149</u>          |
| Less allowance for impairment losses | <u>(2,809)</u>          | <u>(4,093)</u>          |
| <b>Total loans to individuals</b>    | <u><u>297,645</u></u>   | <u><u>137,056</u></u>   |

The components of net investment in finance lease as of 31 December 2007 and 2006 are as follows:

|                                 | 31 December 2007 | 31 December 2006 |
|---------------------------------|------------------|------------------|
| Not later than one year         | 18,454           | 3,029            |
| From one year to five years     | 37,332           | 7,975            |
| Later than five years           | 442              | 1,705            |
| Minimum lease payments          | 56,228           | 12,709           |
| Less: unearned finance income   | (12,100)         | (2,535)          |
| Net investment in finance lease | <u>44,128</u>    | <u>10,174</u>    |
| Current portion                 | 12,996           | 2,200            |
| Long-term portion               | 31,132           | 7,974            |
| Net investment in finance lease | <u>44,128</u>    | <u>10,174</u>    |

### ***Participation in the Government lending programs***

The Bank participates in the Government programs on granting beneficial loans to agricultural sector and related industries. Under the major 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 and related enterprises. Several other minor Government lending programs are also carried out by the Bank. Part of the loan was issued from the funds received by the Bank as Government contribution to share capital and part from own resources. For the loans issued from the Bank's own resources the Government compensated the Bank for the difference between the loan rate and refinance rate of the National Bank plus 3%.

The terms of loans issued under the major Government programs are presented in the following table:

|  | Interest rate paid by the borrower | Original maturity, years | Nominal amount   |                  | Amortized cost   |                  |
|--|------------------------------------|--------------------------|------------------|------------------|------------------|------------------|
|  |                                    |                          | 31 December 2007 | 31 December 2006 | 31 December 2007 | 31 December 2006 |
| Housing loans - non-compensated              | 3%                                 | 40                       | 1,275,446        | 733,115          | 1,275,446        | 733,115          |
| Housing loans - compensated                  |                                    |                          | 1,151,001        | 899,737          | 1,151,001        | 899,737          |
| Machinery loans - non-compensated            | 2%                                 | 7-10                     | 126,561          | 128,676          | 89,944           | 84,765           |
| Machinery loans - compensated                |                                    |                          | 156,630          | 69,134           | 156,630          | 69,134           |
| Other loans – non-compensated                | 0-11%                              | 3-10                     | 131,544          | 123,234          | 94,203           | 104,893          |
| Other loans – compensated                    |                                    |                          | 806,421          | 434,017          | 778,600          | 418,658          |
| <b>Total loans under Government programs</b> |                                    |                          | <u>3,647,603</u> | <u>2,387,913</u> | <u>3,545,824</u> | <u>2,310,302</u> |

The interest rates on housing and machinery loans are lower than inflation rates in the Republic of Belarus and refinance rate of the National Bank. Housing loans have a 3 year grace period for principal repayment.

Loans for housing construction do not have similar financial instruments in the market and due to their unique nature represent a separate market segment. Therefore the management believes that contractual interest rate of 3 % per annum is market rate for such loans.

Loans issued under other Government programs are considered to be issued at a below market rates.



Until 2004 the housing and machinery loans were granted from funds borrowed from the Government. In further years funds were provided by means of direct contributions to share capital for part of loans and part of loans were issued from own resources of the Bank. The Government program loans other than housing and machinery were issued from own resources of the Bank at all times.

Since 1999 upon the decisions of the President and the Government of the Republic of Belarus, debts to the Government incurred under the programs 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 approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest 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 was the date of capitalization of the respective borrowings into share capital, as the Bank was not exposed to any credit risk in respect of loans granted before the capitalization date. Share capital contributions made by means of the capitalization of the funds received by the Bank under these programs were recognized at the approximate fair value of the respective loans as of the dates of capitalization.

## 16. INVESTMENTS IN SECURITIES AVAILABLE FOR SALE

Investments in securities available for sale comprise:

|   | 31 December 2007      | 31 December 2006      |
|---|-----------------------|-----------------------|
| Debt securities available for sale                        |                       |                       |
| Long-term Government bonds                                | 313,189               | 210,736               |
| Short-term National Bank bonds                            | 160,088               | -                     |
| Short-term Government bonds                               | 66,184                | 211,740               |
|   | <u>539,461</u>        | <u>422,476</u>        |
| Corporate shares available for sale                       | <u>673</u>            | <u>631</u>            |
| <b>Total investments in securities available for sale</b> | <u><u>540,134</u></u> | <u><u>423,107</u></u> |

Short-term Government bonds – BYR denominated Government securities that are issued at discount to face value by the Ministry of Finance of the Republic of Belarus with maturities within one year.

Long-term Government bonds - BYR denominated Government securities with original maturity of over one year and coupon or discount income that are issued by the Ministry of Finance of the Republic of Belarus.

Short-term National Bank bonds - BYR denominated securities that are issued at discount to face value by the National Bank of the Republic of Belarus with maturities within one year.

As of 31 December 2007 included in securities available for sale were long-term Government bonds in the amount of BYR 23,392 million, which were pledged as collateral for debt securities issued. (Note 23).

As of 31 December 2007 short term Government bonds at fair value of BYR 32,452 million were pledged as collateral for 2007 loans under repurchase agreements granted by Belarusian banks (Note 21).

## 17. LONG-TERM GOVERNMENT BONDS CLASSIFIED AS LOANS AND RECEIVABLES

In October 2006 the Bank received long-term Government bonds as a contribution to share capital from the Government in the amount of BYR 472,000 million at par value (Note 25). In November 2007 the Bank received long-term Government bonds as a contribution to share capital from the Government in the amount of BYR 150,000 million at par value (Note 25). Under the terms of the contributions imposed by Decrees of the President of the Republic of Belarus the bonds may not be sold on the secondary market and are to be purchased by the National Bank. Proceeds on sale of bonds, as well as cash part of the contribution, may only be used for granting housing loans at a below market interest rate (Note 15). As of 31 December 2006 bonds with carrying amount of BYR 319,199 million were not purchased by the National Bank. These bonds had maturities ranging from 2007 to 2013 and coupon rate equal to annual National Bank's refinance rate, and were classified by the Group as loans and receivables based on restrictions on sale of these instruments. As of 31 December 2007 all bonds received in 2006 and 2007 have been completely disposed off and proceeds have been used for granting the housing loans.

## 18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

The movements in property, equipment and intangible assets were as follows:

|                                       | Buildings | Computer equipment | Vehicles | Furniture, other equipment, and intangible assets | Construction in progress | Total   |
|---------------------------------------|-----------|--------------------|----------|---|--------------------------|---------|
| <b>At cost restated for inflation</b> |           |                    |          |   |                          |         |
| 31 December 2005                      | 113,461   | 36,389             | 15,814   | 39,696  | 32,169                   | 237,529 |
| Additions                             | 10,041    | 5,435              | 1,356    | 12,914  | 5,624                    | 35,370  |
| Transfers                             | 27,611    | (868)              | -        | 747   | (27,490)                 | -       |
| Disposals                             | (3,045)   | (2,027)            | (1,087)  | (1,806)   | (69)                     | (8,034) |
| 31 December 2006                      | 148,068   | 38,929             | 16,083   | 51,551  | 10,234                   | 264,865 |
| Additions                             | 11,682    | 13,961             | 5,171    | 27,629  | 20,898                   | 79,341  |
| Transfers                             | 5,411     | 33                 | -        | 830   | (6,274)                  | -       |
| Disposals                             | (356)     | (2,716)            | (756)    | (1,718)   | (1,020)                  | (6,566) |
| 31 December 2007                      | 164,805   | 50,207             | 20,498   | 78,292  | 23,838                   | 337,640 |
| <b>Accumulated depreciation</b>       |           |                    |          |   |                          |         |
| 31 December 2005                      | 11,254    | 27,265             | 12,073   | 16,953  | -                        | 67,545  |
| Charge for the year                   | 2,131     | 3,453              | 1,023    | 4,544   | -                        | 11,151  |
| Disposals                             | (124)     | (2,012)            | (1,012)  | (1,154)   | -                        | (4,302) |
| 31 December 2006                      | 13,261    | 28,706             | 12,084   | 20,343  | -                        | 74,394  |
| Charge for the year                   | 2,308     | 4,675              | 1,383    | 6,435   | -                        | 14,801  |
| Disposals                             | (160)     | (2,700)            | (740)    | (1,103)   | -                        | (4,703) |
| 31 December 2007                      | 15,409    | 30,681             | 12,727   | 25,675  | -                        | 84,492  |
| <b>Net book value</b>                 |           |                    |          |   |                          |         |
| 31 December 2007                      | 149,396   | 19,526             | 7,771    | 52,617  | 23,838                   | 253,148 |
| 31 December 2006                      | 134,807   | 10,223             | 3,999    | 31,208  | 10,234                   | 190,471 |

A part of depreciation charge for the years ended 31 December 2007 and 2006 in the amount of BYR 857 million and BYR 603 million, respectively, is included in carrying amount of inventory and work in progress from agricultural activities.

## 19. OTHER ASSETS

Other assets comprise:

|   | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|---|-----------------------------|-----------------------------|
| Tax settlements, other than income taxes                    | 11,732                      | 3,965                       |
| Inventory and work in progress from agricultural activities | 10,950                      | 7,891                       |
| Prepayments for property, equipment and intangible assets   | 10,658                      | 3,908                       |
| Prepayments and other debtors                               | 8,692                       | 3,420                       |
| Accrued fees and commissions receivable                     | 1,194                       | 1,885                       |
| Other   | 278                         | 1,091                       |
|   | <u>43,504</u>               | <u>22,160</u>               |
| Less allowance for impairment losses                        | (565)                       | -                           |
|   | <u>42,939</u>               | <u>22,160</u>               |
| <b>Total other assets</b>                                   | <b>42,939</b>               | <b>22,160</b>               |

Movements in allowances for impairment losses on other assets for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

As of 31 December 2007 and 2006 tax settlements, other than income tax mainly include input value added tax balances relating to lease operations of the Group and inventory purchases of the subsidiary PUE "Ozeritskiy-Agro".

## 20. DUE TO THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

As of 31 December 2007 and 2006 balances due to the National Bank of the Republic of Belarus were represented by loans from the National Bank with maturities of up to 1 year.

## 21. DUE TO BANKS

Due to banks comprise:

|  | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|--|-----------------------------|-----------------------------|
| Loans from other banks                 | 1,034,191                   | 484,464                     |
| Syndicated loans from a group of banks | 198,226                     | 85,542                      |
| Correspondent accounts of other banks  | 12,025                      | 837                         |
| Loans under repurchase agreements      | 34,200                      | -                           |
| Credit linked notes facility           | -                           | 196,433                     |
|  | <u>1,278,642</u>            | <u>767,276</u>              |
| <b>Total due to banks</b>              | <b>1,278,642</b>            | <b>767,276</b>              |

As of 31 December 2007 and 2006 the balances due to banks in the amounts of BYR 244,493 million (19% of total balances due to banks) and BYR 373,301 million (49% of total balances due to banks), respectively, were due to 1 and 3 banks, which represent significant concentration.

As of 31 December 2007 loans under repurchase agreements are represented by short term loans granted by Belarusian banks with maturity of up to 30 days which are collateralized by short term Government bonds at fair value of BYR 32,452 million (Note 16).

As of 31 December 2007 included in balances due to banks is a syndicated loan facility from JSC Bank VTB (Russia) and VTB Bank (France) SA for the principle amount of RUR 1,000 million. The loan matures on 26 June 2008 and bears interest rate of 9.7% per annum.

As of 31 December 2007 and 2006 included in balances due to banks is a syndicated loan facility from a group of European and Russian banks and nonbank investment organizations for the principle amount EUR 30 million. At 23 August 2007 the loan has been prolonged for 364 days till 21 August 2008. The loan bears interest rate of Libor + 4% per annum before prolongation and Libor + 3.45% after.

As of 31 December 2006 included in due to banks is credit linked notes facility organized by VTB Bank Europe PLC (Great Britain) for the principle amount of EUR 70 million. The loan matured on 13 December 2007 and bore interest rate of Euribor + 4% per annum.

## 22. CUSTOMERS ACCOUNTS

Customer accounts comprise:

|   | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|---|-----------------------------|-----------------------------|
| Time deposits                                     | 3,349,848                   | 2,011,039                   |
| Current deposits and deposits repayable on demand | <u>611,204</u>              | <u>406,748</u>              |
| <b>Total customer accounts</b>                    | <u><u>3,961,052</u></u>     | <u><u>2,417,787</u></u>     |

As of 31 December 2007 and 2006 customer accounts amounting to BYR 9,769 million and BYR 13,295 million, respectively, were held as security against letters of credit issued by the Group.

As of 31 December 2007 and 2006 customer accounts amounting to BYR 1,931 million and BYR 29,187 million, respectively, were held as security against loans to customers provided by the Group.

As of 31 December 2007 and 2006 customer accounts in the amounts of BYR 1,957,822 million (49% of total customer accounts) and BYR 1,028,310 million (43% of total customer accounts), respectively, were due to 3 customers (2 state bodies and 1 state-owned company), which represent significant concentration.

| <b>Analysis by sector:</b>     | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|--------------------------------|-----------------------------|-----------------------------|
| Government bodies              | 1,838,293                   | 981,875                     |
| Individuals                    | 1,142,903                   | 823,431                     |
| Manufacturing                  | 345,913                     | 415,400                     |
| Agriculture                    | 166,415                     | 90,209                      |
| Construction                   | 148,643                     | 58,801                      |
| Insurance and finance          | 75,570                      | 24,294                      |
| Trade                          | 73,280                      | 13,476                      |
| Transport                      | 6,993                       | 9,842                       |
| Other                          | <u>163,042</u>              | <u>459</u>                  |
| <b>Total customer accounts</b> | <u><u>3,961,052</u></u>     | <u><u>2,417,787</u></u>     |

## 23. DEBT SECURITIES ISSUED

Debt securities issued comprise:

|                                     | 31 December<br>2007 | 31 December<br>2006 |
|-------------------------------------|---------------------|---------------------|
| Interest bearing bonds              | 33,294              | -                   |
| Bonds issued with a discount        | 7,155               | 15,605              |
| Promissory notes                    | 116                 | 139                 |
|                                     | <hr/>               | <hr/>               |
| <b>Total debt securities issued</b> | <b>40,565</b>       | <b>15,744</b>       |

Interest bearing bonds – BYR denominated debt securities with original maturity ranging from one to three years and coupon income that are issued by the Bank for individuals and legal entities.

Bonds issued with a discount – BYR denominated debt securities with original maturity ranging from one to three years that are issued by the Bank for individuals.

As of 31 December 2007 all interest bearing bonds as well as all bonds issued with a discount rate were secured with long term housing loans provided to the Banks customers with the carrying amount of BYR 32,935 million (Note 15) and long-term Government bonds, which are owned by the Bank in the carrying amount of BYR 23,392 million (Note 16).

## 24. OTHER LIABILITIES

Other liabilities comprise:

|  | 31 December<br>2007 | 31 December<br>2006 |
|--|---------------------|---------------------|
| Trade payables on non-banking activities of subsidiaries | 18,834              | 13,888              |
| Provision for guarantees and other commitments           | 9,411               | 4,411               |
| Taxes payable, other than income taxes                   | 7,863               | 3,247               |
| Deferred consideration for subsidiary purchase           | 1,216               | 1,843               |
| Other creditors  | 14,496              | 6,591               |
|  | <hr/>               | <hr/>               |
| <b>Total other liabilities</b>                           | <b>51,820</b>       | <b>29,980</b>       |

Movements in provisions for guarantees and other commitments for the years ended 31 December 2007 and 2006 are disclosed in Note 6.

## 25. SHARE CAPITAL

As of 31 December 2007 and 2006 the authorized, issued and fully paid share capital comprised 939,310,642 and 789,310,642 ordinary shares with a par value of BYR 2,000 each, respectively, and 6,881 preference shares with a par value of BYR 2,000 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 not redeemable and non-voting except for participation in limited range of decisions stated in the Bank's charter.

During the year ended 31 December 2006 the Bank increased the par value of shares from BYR 2 to BYR 2,000 with simultaneous proportionate decrease of the shares quantity. To ensure that each shareholder owns whole number of shares additional share issue was performed before the change in par value for the amount of BYR 17 million by means of capitalizing statutory reserves. Also share capital increases in 2006 included contribution from the Government in form of office premises in the amount of BYR 643 million.

In October 2006 the Bank received long-term Government bonds as a contribution to share capital from the Government in the amount of BYR 472,000 million at par value (Note 17). In November 2007 the Bank received BYR 300,000 million at par value as a contribution to share capital from the Government including BYR 150,000 million in cash and BYR 150,000 million in long-term Government bonds. Under the terms of the contributions made in November 2007 and October 2006 imposed by Decrees of the President of the Republic of Belarus the bonds may not be sold on the secondary market and are to be purchased by the National Bank. Proceeds on sale of bonds, as well as cash part of the contribution, may only be used for granting housing loans at a below market interest rate (Note 15). The Bank initially recognized increase in share capital in the amount of fair value of the consideration received, which was equal to nominal and fair value of the Government bonds received plus amount of cash received.

Total distribution of equity to the Government of the Republic of Belarus related to issuing of loans at a below market interest rate (Note 15) for the year ended 31 December 2007 and 2006 amounted to BYR 30,152 million and BYR 11,961 million respectively.

Total contributions to equity from the Government of the Republic of Belarus in the form of compensation on loans issued under the Government lending programs (Note 15) for the years ended 31 December 2007 and 2006 amounted to BYR 109,500 million and BYR 62,406 million, respectively.

The dividends declared and paid in 2007 for 2006 amounted to BYR 4.74 per ordinary share and BYR 300 per preference share. Total amount of dividends was BYR 3,743 million.

The dividends declared and paid in 2006 for 2005 amounted to BYR 0.00328 per ordinary share (before increase of shares' face value) and BYR 0.3 per preference share. Total amount of dividends was BYR 1,814 million.

As of 31 December 2007 and 2006 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 in amount of BYR 30,726 million (unaudited) and BYR 17,055 million (unaudited), respectively.

## **26. COMMITMENTS AND CONTINGENCIES**

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

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

Provision on letters of credit and guarantees amounted to BYR 9,411 million and BYR 4,411 million as of 31 December 2007 and 2006, respectively (Note 24).

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 2007 and 2006 the nominal of contracts were:

|  | <b>31 December<br/>2007</b> | <b>31 December<br/>2006</b> |
|--|-----------------------------|-----------------------------|
| Guarantees issued and similar commitments                  | 47,735                      | 38,277                      |
| Letters of credit  | 130,008                     | 144,903                     |
| Commitments on loans and unused credit lines               | <u>185,635</u>              | <u>63,909</u>               |
| <b>Total contingent liabilities and credit commitments</b> | <u><u>363,378</u></u>       | <u><u>247,089</u></u>       |

**Operating lease commitments** – The Group had no material commitments for non-cancelable leases outstanding as of 31 December 2007 and 2006.

**Legal proceedings** – From time to time and in the normal course of business, claims against the Group 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 consolidated 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 2007 and 2006, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## 27. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group it gives them significant influence over the Bank; and that have joint control over the Group;
- (b) Associates – enterprises on which the Group has significant influence and which are neither a subsidiary nor a joint venture of the Group;
- (c) Joint ventures in which the Group is a venturer;
- (d) Members of key management personnel of the Group or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group had the following transactions outstanding as of 31 December 2007 and 2006 with related parties:

|   | 31 December 2007       |  | 31 December 2006       |  |
|---|------------------------|--|------------------------|--|
|   | Related party balances | Total category as per financial statements caption | Related party balances | Total category as per financial statements caption |
| <b>Due from the National Bank of the Republic of Belarus</b>          | <b>191,596</b>         | <b>191,596</b>                                     | <b>71,266</b>          | <b>71,266</b>                                      |
| <b>Due from banks</b>   | <b>3,635</b>           | <b>69,890</b>                                      | <b>89,200</b>          | <b>128,454</b>                                     |
| - state entities (under common control of the State)                  | 3,635                  |  | 89,200                 |  |
| <b>Loans to customers, gross</b>                                      | <b>3,440,814</b>       | <b>6,931,347</b>                                   | <b>2,196,194</b>       | <b>4,379,511</b>                                   |
| - state entities (under common control of the State)                  | 3,365,333              |  | 2,135,364              |  |
| - Government bodies   | 74,235                 |  | 60,143                 |  |
| - key management personnel  | 1,246                  |  | 687                    |  |
| <b>Allowance for impairment losses on loans to customers</b>          | <b>(110,645)</b>       | <b>(166,572)</b>                                   | <b>(81,550)</b>        | <b>(133,812)</b>                                   |
| - state entities (under common control of the State)                  | (109,458)              |  | (80,988)               |  |
| - Government bodies   | (1,187)                |  | (562)                  |  |
| <b>Investments in securities available for sale</b>                   | <b>540,077</b>         | <b>540,134</b>                                     | <b>423,013</b>         | <b>423,107</b>                                     |
| - Government bodies   | 540,077                |  | 423,013                |  |
| <b>Long-term Government bonds classified as loans and receivables</b> | <b>-</b>               | <b>-</b>   | <b>319,199</b>         | <b>319,199</b>                                     |
| - Government bodies   | -                      |  | 319,199                |  |
| <b>Derivative financial instruments, assets</b>                       | <b>20,342</b>          | <b>20,790</b>                                      | <b>13,805</b>          | <b>13,812</b>                                      |
| - Government bodies   | 20,342                 |  | 13,805                 |  |
| <b>Current income taxes asset</b>                                     | <b>3,934</b>           | <b>3,934</b>                                       | <b>5,377</b>           | <b>5,377</b>                                       |
| <b>Other assets</b>   | <b>11,732</b>          | <b>42,939</b>                                      | <b>3,965</b>           | <b>22,160</b>                                      |
| - Government bodies (taxes prepaid other than income tax)             | 11,732                 |  | 3,965                  |  |
| <b>Due to the National Bank of the Republic of Belarus</b>            | <b>551,561</b>         | <b>551,561</b>                                     | <b>531,993</b>         | <b>531,993</b>                                     |
| <b>Due to banks</b>   | <b>384,451</b>         | <b>1,278,642</b>                                   | <b>146,391</b>         | <b>767,276</b>                                     |
| - state entities (under common control of the State)                  | 384,451                |  | 146,391                |  |
| <b>Customer accounts</b>  | <b>2,073,253</b>       | <b>3,961,052</b>                                   | <b>1,141,134</b>       | <b>2,417,787</b>                                   |
| - Government bodies   | 1,838,293              |  | 981,875                |  |
| - state entities (under common control of the State)                  | 233,629                |  | 158,747                |  |
| - key management personnel  | 1,331                  |  | 512                    |  |
| <b>Current income taxes liability</b>                                 | <b>2,330</b>           | <b>2,330</b>                                       | <b>1,387</b>           | <b>1,387</b>                                       |
| <b>Other liabilities</b>  | <b>9,079</b>           | <b>51,820</b>                                      | <b>9,510</b>           | <b>29,980</b>                                      |
| - Government bodies   | 9,079                  |  | 9,510                  |  |
| <b>Derivative financial instruments, liabilities</b>                  | <b>23</b>              | <b>23</b>  | <b>15</b>              | <b>15</b>  |
| - state entities (under common control of the State)                  | 23                     |  | 15                     |  |
| <b>Guarantees issued</b>  | <b>37,114</b>          | <b>47,735</b>                                      | <b>2,101</b>           | <b>38,277</b>                                      |
| - state entities (under common control of the State)                  | 37,114                 |  | 2,101                  |  |
| <b>Letters of credit</b>  | <b>70,725</b>          | <b>130,008</b>                                     | <b>76,904</b>          | <b>144,903</b>                                     |
| - state entities (under common control of the State)                  | 70,725                 |  | 76,904                 |  |
| <b>Commitments on credits and unused credit lines</b>                 | <b>61,073</b>          | <b>185,635</b>                                     | <b>34,933</b>          | <b>63,909</b>                                      |
| - state entities (under common control of the State)                  | 61,073                 |  | 34,933                 |  |
| <b>Provision for guarantees and letters of credit</b>                 | <b>4,260</b>           | <b>9,411</b>                                       | <b>1,902</b>           | <b>4,411</b>                                       |
| - state entities (under common control of the State)                  | 4,260                  |  | 1,902                  |  |



Included in the consolidated income statement for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

|  | Year ended 31 December 2007 |  | Year ended 31 December 2006 |  |
|--|-----------------------------|--|-----------------------------|--|
|  | Related party transactions  | Total category as per financial statements caption | Related party transactions  | Total category as per financial statements caption |
| <b>Interest income</b>   | <b>263,413</b>              | <b>584,465</b>                                     | <b>188,367</b>              | <b>383,168</b>                                     |
| - customers - state entities (under common control of the State) | 202,223                     |  | 136,933                     |  |
| - Government bodies  | 60,983                      |  | 51,299                      |  |
| - banks - state entities (under common control of the State)     | 207                         |  | 135                         |  |
| <b>Fee and commission income</b>                                 | <b>50,149</b>               | <b>147,790</b>                                     | <b>43,417</b>               | <b>134,458</b>                                     |
| - state entities (under common control of the State)             | 50,105                      |  | 43,417                      |  |
| - Government bodies  | 28                          |  | -                           |  |
| - key management personnel                                       | 16                          |  | -                           |  |
| <b>Interest expenses</b>   | <b>216,295</b>              | <b>413,171</b>                                     | <b>136,844</b>              | <b>247,938</b>                                     |
| - Government bodies  | 135,849                     |  | 63,770                      |  |
| - National Bank (under common control of the State)              | 53,600                      |  | 50,234                      |  |
| - banks - state entities (under common control of the State)     | 21,260                      |  | 13,018                      |  |
| - customers - state entities (under common control of the State) | 5,541                       |  | 9,786                       |  |
| - key management personnel                                       | 45                          |  | 36                          |  |
| <b>Provision for impairment losses on loans to customers</b>     | <b>29,095</b>               | <b>32,760</b>                                      | <b>24,319</b>               | <b>45,265</b>                                      |
| - state entities (under common control of the State)             | 28,470                      |  | 24,247                      |  |
| - Government bodies  | 625                         |  | 72                          |  |
| <b>Net gain on foreign exchange operations</b>                   | <b>20,342</b>               | <b>38,381</b>                                      | <b>13,790</b>               | <b>37,137</b>                                      |
| - state entities (under common control of the State)             | 20,342                      |  | 13,790                      |  |
| <b>Other provisions</b>  | <b>2,358</b>                | <b>5,565</b>                                       | <b>1,591</b>                | <b>2,595</b>                                       |
| - state entities (under common control of the State)             | 2,358                       |  | 1,591                       |  |
| <b>Operating expenses</b>  | <b>30,169</b>               | <b>251,351</b>                                     | <b>23,702</b>               | <b>203,162</b>                                     |
| - key management personnel (remuneration)                        | 4,808                       |  | 4,151                       |  |
| - Government bodies (taxes other than income taxes)              | 25,361                      |  | 19,551                      |  |
| <b>Income taxes expense</b>                                      | <b>25,471</b>               | <b>25,471</b>                                      | <b>22,012</b>               | <b>22,012</b>                                      |

During the years ended 31 December 2007 and 2006 key management personnel remuneration included in operating expenses caption in the table above comprised short-term employee benefits.

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimates of 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. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

|   | 31 December 2007 |            | 31 December 2006 |            |
|---|------------------|------------|------------------|------------|
|   | Carrying value   | Fair value | Carrying value   | Fair value |
| <b>ASSETS</b>   |                  |            |                  |            |
| Cash and balances with the National Bank of the Republic of Belarus | 362,562          | 362,562    | 142,570          | 142,570    |
| Due from banks  | 69,890           | 69,890     | 128,454          | 128,454    |
| Derivative financial instruments                                    | 20,790           | 20,790     | 13,812           | 13,812     |
| Investments in debt securities available for sale                   | 539,461          | 539,461    | 422,476          | 422,476    |
| <b>LIABILITIES</b>  |                  |            |                  |            |
| Due to the National Bank of the Republic of Belarus                 | 551,561          | 551,561    | 531,993          | 531,993    |
| Due to banks  | 1,278,642        | 1,278,642  | 767,276          | 767,276    |
| Derivative financial instruments                                    | 23               | 23         | 15               | 15         |
| Debt securities issued  | 40,565           | 40,565     | 15,744           | 15,744     |

The fair value of loans to customers, and investments in equity securities, as well as customer accounts with fixed interest rate can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

## 29. SUBSEQUENT EVENTS

Dividends in the amount of BYR 5,140 million for the year 2007 were declared and approved in March 2008, comprising BYR 5,138 million for ordinary shares and BYR 2 million for preference shares.

In April 2008 the Bank amended the contracts for housing loans issued under the Government loan program (Note 15) from the Bank’s own resources. According to legislation of the Republic of Belarus the Government is obliged to compensate to the Bank the difference between the contractual interest rate and refinance rate plus 3%. As of 31 December 2007 and 2006 the carrying amount of these contracts was BYR 1,151,001 million and BYR 899,737 million, respectively. The amendments to the contracts stipulate that in case the Government discontinues the compensation borrowers will pay an extra interest rate equal to the Government compensation.

### 30. CAPITAL MANAGEMENT AND REGULATORY MATTERS

The Group manages its capital to ensure compliance with prudential requirements and ability to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the equity capital adequacy ratio is determined by comparing the Bank's own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The Bank considers weighted average cost of capital and risks associated with each class of capital, and balances its overall capital structure through dividend policy, issues of new shares and debt as well as the redemption thereof.

Quantitative measures established by the Group to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

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

| Estimate | Description of position  |
|----------|--|
| 0%       | Cash and balances with the National Bank   |
| 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%      | Balances due from banks for up to 1 year and securities issued by banks                                |
| 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  |

As of 31 December 2007 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 2,173,909 million with ratios of 30.9%.

As of 31 December 2006 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 1,727,938 million with ratios of 36.83%.

### 31. RISK MANAGEMENT POLICIES

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

The Group manages the following risks:

### **Credit risk**

The Group 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.

To minimize credit risk the Group pursues the following principles of lending process:

- collective decision making;
- segregation of lending decision authority based on the amount of risk to be taken;
- decision making based on risk assessment;
- monitoring of lending operations until complete discharge of obligations by counterparty.

Decisions on possibility and terms of lending operations and further monitoring are performed using borrower credit ratings based on evaluation of credit history and financial ratios.

To minimize credit risk Credit Committees at different levels of the Group's structure set limits on the amount of risk accepted in relation to one borrower, or groups of borrowers within their authority. Limits on the level of credit risk by a borrower are monthly reviewed and approved by the Board. The exposure to any one borrower is also restricted by limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily. Quarterly forecast balance sheet and monthly payments calendar are used to set and adjust branch limits of credit exposures for industry sectors and types of loans.

In respect of most loans the Group obtains collateral and guarantees of companies or individuals. Required amount and nature of collateral is determined using the borrower credit rating. Credit risk and collateral are monitored on a regular basis.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Belarus. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on:

|  | <b>31 December 2007</b> | <b>31 December 2006</b> |
|--|-------------------------|-------------------------|
|  | <b>Maximum exposure</b> | <b>Maximum exposure</b> |
| Balances with the National Bank                                | 191,596                 | 71,266                  |
| Due from banks   | 69,890                  | 128,454                 |
| Loans to customers   | 6,764,775               | 4,245,699               |
| Investments available for sale                                 | 540,134                 | 423,107                 |
| Long-term Government bonds classified as loans and receivables | -                       | 319,199                 |
| Guarantees issued and similar commitments                      | 47,735                  | 38,277                  |
| Letters of credit  | 130,008                 | 144,903                 |
| Commitments on loans and unused credit lines                   | 185,635                 | 63,909                  |

Financial assets are graded according to the current credit rating of the issuer, assigned by an internationally regarded agency Fitch Ratings Ltd as of the respective reporting date.

The following table details the credit ratings of financial assets held by the Group:

|  | AA  | A      | BBB    | BB | B       | Not rated | 31 December 2007<br>Total |
|--|-----|--------|--------|----|---------|-----------|---------------------------|
| Balances in the National Bank                | -   | -      | -      | -  | -       | 191,596   | 191,596                   |
| Due from banks                               | 793 | 19,606 | 22,585 | -  | 4,034   | 22,872    | 69,890                    |
| Loans to customers                           | -   | -      | -      | -  | -       | 6,764,775 | 6,764,775                 |
| Investments in securities available for sale | -   | -      | -      | -  | 539,801 | 333       | 540,134                   |

|  | AA    | A     | BBB    | BB | B      | Not rated | 31 December 2006<br>Total |
|--|-------|-------|--------|----|--------|-----------|---------------------------|
| Balances in the National Bank                                  | -     | -     | -      | -  | -      | 71,266    | 71,266                    |
| Due from banks   | 9,501 | 3,668 | 15,238 | -  | 92,049 | 7,998     | 128,454                   |
| Loans to customers   | -     | -     | -      | -  | -      | 4,245,699 | 4,245,699                 |
| Investments in securities available for sale                   | -     | -     | -      | -  | 340    | 422,761   | 423,101                   |
| Long-term Government bonds classified as loans and receivables | -     | -     | -      | -  | -      | 319,199   | 319,199                   |

The following tables detail the carrying value of assets that are impaired:

|  | Neither past due nor impaired | Not past due impaired | Past due and impaired | 31 December 2007<br>Total |
|--|-------------------------------|-----------------------|-----------------------|---------------------------|
| Due from banks                               | 69,890                        | -                     | -                     | 69,890                    |
| Loans to customers                           | 479,587                       | 6,260,343             | 24,845                | 6,764,775                 |
| Investments in securities available for sale | 540,134                       | -                     | -                     | 540,134                   |

|  | Neither past due nor impaired | Not past due impaired | Past due and impaired | 31 December 2006<br>Total |
|--|-------------------------------|-----------------------|-----------------------|---------------------------|
| Due from banks   | 128,454                       | -                     | -                     | 128,454                   |
| Loans to customers   | 163,894                       | 4,040,392             | 41,413                | 4,245,699                 |
| Investments available for sale                                 | 423,107                       | -                     | -                     | 423,107                   |
| Long-term Government bonds classified as loans and receivables | 319,199                       | -                     | -                     | 319,199                   |

## 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 2007 Total |
|---|------------------|---------------------|------------------|--------------------------|------------------------|
| <b>ASSETS</b>   |                  |                     |                  |                          |                        |
| Cash and balances with the National Bank of the Republic of Belarus | 362,562          | -                   | -                | -                        | 362,562                |
| Due from banks  | 23,257           | 24,863              | 21,721           | 49                       | 69,890                 |
| Precious metals   | 1,730            | -                   | -                | -                        | 1,730                  |
| Derivative financial instruments                                    | 20,733           | -                   | 57               | -                        | 20,790                 |
| Loans to customers  | 6,764,775        | -                   | -                | -                        | 6,764,775              |
| Investments in securities available for sale                        | 540,134          | -                   | -                | -                        | 540,134                |
| Property, equipment and intangible assets                           | 253,148          | -                   | -                | -                        | 253,148                |
| Current income tax assets   | 3,934            | -                   | -                | -                        | 3,934                  |
| Other assets  | 42,939           | -                   | -                | -                        | 42,939                 |
| <b>TOTAL ASSETS</b>   | <b>8,013,212</b> | <b>24,863</b>       | <b>21,778</b>    | <b>49</b>                | <b>8,059,902</b>       |
| <b>LIABILITIES</b>  |                  |                     |                  |                          |                        |
| Due to the National Bank of the Republic of Belarus                 | 551,561          | -                   | -                | -                        | 551,561                |
| Due to banks  | 494,760          | 123,436             | 652,361          | 8,085                    | 1,278,642              |
| Derivative financial instruments                                    | 12               | 11                  | -                | -                        | 23                     |
| Customer accounts   | 3,959,113        | 1,643               | 275              | 21                       | 3,961,052              |
| Debt securities issued  | 40,565           | -                   | -                | -                        | 40,565                 |
| Current income tax liabilities                                      | 2,330            | -                   | -                | -                        | 2,330                  |
| Other liabilities   | 51,820           | -                   | -                | -                        | 51,820                 |
| <b>TOTAL LIABILITIES</b>  | <b>5,100,161</b> | <b>125,090</b>      | <b>652,636</b>   | <b>8,106</b>             | <b>5,885,993</b>       |
| <b>NET POSITION</b>   | <b>2,913,051</b> | <b>(100,227)</b>    | <b>(630,858)</b> | <b>(8,057)</b>           |                        |

|   | <b>Belarus</b>   | <b>Other CIS countries</b> | <b>OECD countries</b> | <b>Other non-OECD countries</b> | <b>31 December 2006 Total</b> |
|---|------------------|----------------------------|-----------------------|---------------------------------|-------------------------------|
| <b>ASSETS</b>   |                  |                            |                       |                                 |                               |
| Cash and balances with the National Bank of the Republic of Belarus | 142,570          | -                          | -                     | -                               | 142,570                       |
| Due from banks  | 99,258           | 15,770                     | 10,583                | 2,843                           | 128,454                       |
| Precious metals   | 1,271            | -                          | -                     | -                               | 1,271                         |
| Derivative financial instruments                                    | 13,812           | -                          | -                     | -                               | 13,812                        |
| Loans to customers  | 4,245,699        | -                          | -                     | -                               | 4,245,699                     |
| Investments in securities available for sale                        | 423,107          | -                          | -                     | -                               | 423,107                       |
| Long-term Government bonds classified as loans and receivables      | 319,199          | -                          | -                     | -                               | 319,199                       |
| Property, equipment and intangible assets                           | 190,471          | -                          | -                     | -                               | 190,471                       |
| Current income tax assets   | 5,377            | -                          | -                     | -                               | 5,377                         |
| Other assets  | 22,160           | -                          | -                     | -                               | 22,160                        |
| <b>TOTAL ASSETS</b>   | <b>5,462,924</b> | <b>15,770</b>              | <b>10,583</b>         | <b>2,843</b>                    | <b>5,492,120</b>              |
| <b>LIABILITIES</b>  |                  |                            |                       |                                 |                               |
| Due to the National Bank of the Republic of Belarus                 | 531,993          | -                          | -                     | -                               | 531,993                       |
| Due to banks  | 186,342          | 111,218                    | 469,716               | -                               | 767,276                       |
| Derivative financial instruments                                    | 15               | -                          | -                     | -                               | 15                            |
| Customer accounts   | 2,417,000        | 515                        | 251                   | 21                              | 2,417,787                     |
| Debt securities issued  | 15,744           | -                          | -                     | -                               | 15,744                        |
| Current income tax liabilities                                      | 1,387            | -                          | -                     | -                               | 1,387                         |
| Other liabilities   | 29,980           | -                          | -                     | -                               | 29,980                        |
| <b>TOTAL LIABILITIES</b>  | <b>3,182,461</b> | <b>111,733</b>             | <b>469,967</b>        | <b>21</b>                       | <b>3,764,182</b>              |
| <b>NET POSITION</b>   | <b>2,280,463</b> | <b>(95,963)</b>            | <b>(459,384)</b>      | <b>2,822</b>                    |                               |

### ***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 liquidity risk, Treasury, Departments of Strategic Development, Lending, Securities, Foreign Trade Finance, Corporate Business, International Settlements, Currency Regulation and Control take actions aimed at planning (assessment of liquidity position, forecast of ratios), analysis (determination of negative factors and trends, development of action plans) and adjusting of liquidity position depending on current and forecasted liquidity position of the Group.

An analysis of the liquidity and interest rate risks is presented in the following tables. The tables have been drawn up to detail the remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Group can be required to pay:

|  | Weighted average effective % rate | Up to 1 month    | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years   | 31 December 2007 |
|--|-----------------------------------|------------------|---------------------|-------------------|-------------------|----------------|------------------|
| <b>FINANCIAL LIABILITIES</b>                         |                                   |                  |                     |                   |                   |                |                  |
| Due to the National Bank of the Republic of Belarus  | 0.86%                             | 48               | 63,077              | 1,904             | -                 | -              | 65,029           |
| Due to banks   | 7.14%                             | 142,445          | 25,448              | 101,223           | -                 | -              | 269,116          |
| Customer accounts                                    | 7.99%                             | 379,084          | 245,631             | 568,598           | 697,964           | 6,505          | 1,897,782        |
| Debt securities issued                               | 10.81%                            | 702              | 10,624              | 13,865            | 24,754            | -              | 49,945           |
| Total interest bearing liabilities at fixed rates    |                                   | 522,279          | 344,780             | 685,590           | 722,718           | 6,505          | 2,281,872        |
| Due to the National Bank of the Republic of Belarus  | 10.00%                            | 4,055            | 8,110               | 519,171           | -                 | -              | 531,336          |
| Due to banks   | 8.04%                             | 18,489           | 78,300              | 244,689           | 726,845           | 209,561        | 1,277,884        |
| Customer accounts                                    | 9.12%                             | 623,609          | 406,215             | 712,368           | 748,006           | 1,759          | 2,491,957        |
| Total interest bearing liabilities at variable rates |                                   | 646,153          | 492,625             | 1,476,228         | 1,474,851         | 211,320        | 4,301,177        |
| Total interest bearing liabilities                   |                                   | 1,168,432        | 837,405             | 2,161,818         | 2,197,569         | 217,825        | 6,583,049        |
| Due to banks   |                                   | 990              | -                   | -                 | -                 | -              | 990              |
| Customer accounts                                    |                                   | 44,253           | -                   | -                 | -                 | -              | 44,253           |
| Other liabilities                                    |                                   | 31,216           | 116                 | 5,052             | 5,937             | 88             | 42,409           |
| Financial guarantee contracts and letters of credit  |                                   | 141,946          | 4,752               | 20,570            | 10,474            | -              | 177,742          |
| Commitments on loans and unused credit lines         |                                   | 148,249          | 4,963               | 21,483            | 10,940            | -              | 185,635          |
| <b>TOTAL FINANCIAL LIABILITIES</b>                   |                                   | <b>1,535,086</b> | <b>847,236</b>      | <b>2,208,923</b>  | <b>2,224,920</b>  | <b>217,913</b> | <b>7,034,078</b> |
|  | Weighted average effective % rate | Up to 1 month    | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years   | 31 December 2006 |
| <b>FINANCIAL LIABILITIES</b>                         |                                   |                  |                     |                   |                   |                |                  |
| Due to the National Bank of the Republic of Belarus  | 0.45%                             | 56               | 137,265             | -                 | -                 | -              | 137,321          |
| Due to banks   | 8.88%                             | 69,057           | 2,377               | 20,709            | -                 | -              | 92,143           |
| Customer accounts                                    | 7.62%                             | 669,949          | 196,942             | 579,582           | 53,350            | 2,999          | 1,502,822        |
| Debt securities issued                               | 9.83%                             | 115              | -                   | 31,992            | 24                | -              | 32,131           |
| Total interest bearing liabilities at fixed rates    |                                   | 739,177          | 336,584             | 632,283           | 53,374            | 2,999          | 1,764,417        |
| Due to the National Bank of the Republic of Belarus  | 10.00%                            | 396,826          | -                   | -                 | -                 | -              | 396,826          |
| Due to banks   | 7.25%                             | 4,505            | 20,893              | 354,075           | 419,762           | 10,568         | 809,803          |
| Customer accounts                                    | 9.61%                             | 246,614          | 139,323             | 599,721           | 11,339            | 440            | 997,437          |
| Total interest bearing liabilities at variable rates |                                   | 647,945          | 160,216             | 953,796           | 431,101           | 11,008         | 2,204,066        |
| Total interest bearing liabilities                   |                                   | 1,387,122        | 496,800             | 1,586,079         | 484,475           | 14,007         | 3,968,483        |
| Due to banks   |                                   | 837              | -                   | -                 | -                 | -              | 837              |
| Customer accounts                                    |                                   | 31,045           | -                   | -                 | -                 | -              | 31,045           |
| Other liabilities                                    |                                   | 39,833           | 116                 | 4,513             | 6,584             | 774            | 51,820           |
| Financial guarantee contracts and letters of credit  |                                   | 82,535           | 31,053              | 30,513            | 45,201            | -              | 189,302          |
| Commitments on loans and unused credit lines         |                                   | 27,864           | 10,483              | 10,301            | 15,261            | -              | 63,909           |
| <b>TOTAL FINANCIAL LIABILITIES</b>                   |                                   | <b>1,569,236</b> | <b>538,452</b>      | <b>1,631,406</b>  | <b>551,521</b>    | <b>14,781</b>  | <b>4,305,396</b> |



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

|   | Up to<br>1 month | 1 month<br>to<br>3 months | 3 month<br>to 1 year | 1 year to<br>5 years | Over 5<br>years  | Overdue       | Maturity<br>undefined | 31 December<br>2007 |
|---|------------------|---------------------------|----------------------|----------------------|------------------|---------------|-----------------------|---------------------|
| <b>ASSETS</b>   |                  |                           |                      |                      |                  |               |                       |                     |
| Due from banks  | 6,961            | 4,300                     | 13,657               | -                    | -                | -             | -                     | 24,918              |
| Loans to customers  | 268,784          | 915,254                   | 1,841,832            | 1,686,560            | 2,027,500        | 24,845        | -                     | 6,764,775           |
| Investments in securities<br>available for sale                           | 179,904          | 21,776                    | 35,538               | 222,243              | 80,000           | -             | -                     | 539,461             |
| Total interest bearing assets   | 455,649          | 941,330                   | 1,891,027            | 1,908,803            | 2,107,500        | 24,845        | -                     | 7,329,154           |
| Cash and balances with the<br>National Bank of the<br>Republic of Belarus | 279,629          | -                         | -                    | -                    | -                | -             | 82,933                | 362,562             |
| Precious metals   | 1,730            | -                         | -                    | -                    | -                | -             | -                     | 1,730               |
| Derivative financial<br>instruments                                       | 1,843            | -                         | 18,947               | -                    | -                | -             | -                     | 20,790              |
| Due from banks  | 44,044           | -                         | 928                  | -                    | -                | -             | -                     | 44,972              |
| Investments in securities<br>available for sale                           | -                | -                         | -                    | -                    | -                | -             | 673                   | 673                 |
| Property, equipment and<br>intangible assets                              | -                | -                         | -                    | -                    | -                | -             | 253,148               | 253,148             |
| Current income tax assets   | 3,934            | -                         | -                    | -                    | -                | -             | -                     | 3,934               |
| Other assets  | 18,886           | 6,281                     | 13,198               | 2,421                | 598              | 198           | 1,357                 | 42,939              |
| <b>TOTAL ASSETS</b>   | <b>805,715</b>   | <b>947,611</b>            | <b>1,924,100</b>     | <b>1,911,224</b>     | <b>2,108,098</b> | <b>25,043</b> | <b>338,111</b>        | <b>8,059,902</b>    |
| <b>LIABILITIES</b>  |                  |                           |                      |                      |                  |               |                       |                     |
| Due to the National Bank of<br>the Republic of Belarus                    | -                | 63,060                    | 488,501              | -                    | -                | -             | -                     | 551,561             |
| Due to banks  | 150,843          | 94,743                    | 297,813              | 543,616              | 190,637          | -             | -                     | 1,277,652           |
| Customer accounts   | 1,045,245        | 640,988                   | 1,190,466            | 1,033,744            | 6,356            | -             | -                     | 3,916,799           |
| Debt securities issued  | 258              | 10,198                    | 12,390               | 17,719               | -                | -             | -                     | 40,565              |
| Total interest bearing<br>liabilities                                     | 1,196,346        | 808,989                   | 1,989,170            | 1,595,079            | 196,993          | -             | -                     | 5,786,577           |
| Due to banks  | 990              | -                         | -                    | -                    | -                | -             | -                     | 990                 |
| Derivative financial<br>instruments                                       | 23               | -                         | -                    | -                    | -                | -             | -                     | 23                  |
| Customer accounts   | 44,253           | -                         | -                    | -                    | -                | -             | -                     | 44,253              |
| Current income tax liabilities  | 2,330            | -                         | -                    | -                    | -                | -             | -                     | 2,330               |
| Other liabilities   | 31,743           | 116                       | 10,203               | 8,984                | 774              | -             | -                     | 51,820              |
| <b>TOTAL LIABILITIES</b>  | <b>1,275,685</b> | <b>809,105</b>            | <b>1,999,373</b>     | <b>1,604,063</b>     | <b>197,767</b>   | <b>-</b>      | <b>-</b>              | <b>5,885,993</b>    |
| Liquidity gap   | (469,970)        | 138,506                   | (75,273)             | 307,161              | 1,910,331        |               |                       |                     |
| Interest sensitivity gap  | (740,697)        | 132,341                   | (98,143)             | 313,724              | 1,910,507        |               |                       |                     |
| Cumulative interest<br>sensitivity gap                                    | (740,697)        | (608,356)                 | (706,499)            | (392,775)            | 1,517,732        |               |                       |                     |
| Cumulative interest<br>sensitivity gap as a<br>percentage of total assets | (9%)             | (8%)                      | (9%)                 | (5%)                 | 19%              |               |                       |                     |

|   | Up to<br>1 month | 1 month to<br>3 months | 3 month to<br>1 year | 1 year to<br>5 years | Over 5 years     | Overdue       | Maturity<br>undefined | 31 December<br>2006 |
|---|------------------|------------------------|----------------------|----------------------|------------------|---------------|-----------------------|---------------------|
| <b>ASSETS</b>   |                  |                        |                      |                      |                  |               |                       |                     |
| Due from banks  | 114,746          | 1,399                  | 9,185                | -                    | -                | -             | 257                   | 125,587             |
| Loans to customers  | 339,210          | 503,235                | 1,255,094            | 672,471              | 1,434,276        | 41,413        | -                     | 4,245,699           |
| Investments in securities<br>available for sale                           | 422,476          | -                      | -                    | -                    | -                | -             | -                     | 422,476             |
| Long-term Government bonds<br>classified as loans and<br>receivables      | -                | 22,000                 | -                    | 200,000              | 97,199           | -             | -                     | 319,199             |
| Total interest bearing assets   | 876,432          | 526,634                | 1,264,279            | 872,471              | 1,531,475        | 41,413        | 257                   | 5,112,961           |
| Cash and balances with the<br>National Bank of the<br>Republic of Belarus | 71,659           | -                      | -                    | -                    | -                | -             | 70,911                | 142,570             |
| Due from banks  | 2,867            | -                      | -                    | -                    | -                | -             | -                     | 2,867               |
| Precious metals   | 1,271            | -                      | -                    | -                    | -                | -             | -                     | 1,271               |
| Derivative financial instruments  | 77               | -                      | 13,735               | -                    | -                | -             | -                     | 13,812              |
| Investments in securities<br>available for sale                           | -                | -                      | -                    | -                    | -                | -             | 631                   | 631                 |
| Property, equipment and<br>intangible assets                              | -                | -                      | -                    | -                    | -                | -             | 190,471               | 190,471             |
| Current income tax assets   | 5,377            | -                      | -                    | -                    | -                | -             | -                     | 5,377               |
| Other assets  | 2,506            | 7,373                  | 1,538                | 7,215                | 3,336            | 39            | 153                   | 22,160              |
| <b>TOTAL ASSETS</b>   | <b>960,189</b>   | <b>534,007</b>         | <b>1,279,552</b>     | <b>879,686</b>       | <b>1,534,811</b> | <b>41,452</b> | <b>262,423</b>        | <b>5,492,120</b>    |
| <b>LIABILITIES</b>  |                  |                        |                      |                      |                  |               |                       |                     |
| Due to the National Bank of the<br>Republic of Belarus                    | 406,009          | 125,984                | -                    | -                    | -                | -             | -                     | 531,993             |
| Due to banks  | 64,771           | 15,270                 | 347,893              | 338,505              | -                | -             | -                     | 766,439             |
| Customer accounts   | 911,150          | 330,600                | 1,095,945            | 46,383               | 2,664            | -             | -                     | 2,386,742           |
| Debt securities issued  | 115              | -                      | 15,608               | 21                   | -                | -             | -                     | 15,744              |
| Total interest bearing liabilities  | 1,382,045        | 471,854                | 1,459,446            | 384,909              | 2,664            | -             | -                     | 3,700,918           |
| Due to banks  | 837              | -                      | -                    | -                    | -                | -             | -                     | 837                 |
| Derivative financial instruments  | -                | 15                     | -                    | -                    | -                | -             | -                     | 15                  |
| Customer accounts   | 31,045           | -                      | -                    | -                    | -                | -             | -                     | 31,045              |
| Current income tax liabilities  | 1,387            | -                      | -                    | -                    | -                | -             | -                     | 1,387               |
| Other liabilities   | 3,275            | 4,336                  | 7,622                | 10,093               | 4,556            | -             | 98                    | 29,980              |
| <b>TOTAL LIABILITIES</b>  | <b>1,418,589</b> | <b>476,205</b>         | <b>1,467,068</b>     | <b>395,002</b>       | <b>7,220</b>     | <b>-</b>      | <b>98</b>             | <b>3,764,182</b>    |
| Liquidity gap   | (458,400)        | 57,802                 | (187,516)            | 484,684              | 1,527,591        |               |                       |                     |
| Interest sensitivity gap  | (505,613)        | 54,780                 | (195,167)            | 487,562              | 1,528,811        |               |                       |                     |
| Cumulative interest sensitivity<br>gap                                    | (505,613)        | (450,833)              | (646,000)            | (158,438)            | 1,370,373        |               |                       |                     |
| Cumulative interest sensitivity<br>gap as a percentage of total<br>assets | (9%)             | (8%)                   | (12%)                | (3%)                 | 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 Group'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, these deposits are diversified by the number and type of customers.

### ***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 financial instrument or its issuer or factors affecting all financial instruments traded in the market. The Group is exposed to market risks of its products which are subject to general and specific market fluctuations.

The Group 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.

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate assets and borrowings.

Most of the loan contracts and other financial assets and liabilities of the Group bear variable interest rate or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

### ***Interest rate risk***

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

To minimize interest risk the Group:

- utilizes centralized approach to setting interest rates on major types of placed and attracted resources;
- applies where necessary interest rates attachment to major financial market indicators (primarily to refinance rate of the National Bank of the Republic of Belarus);
- gives preference to placements and fund raising on terms that provide the Group with right to change interest rates in case of change in market situation;
- pursues policy aimed at balanced position of assets and liabilities by maturity;
- constantly monitors assets and liabilities exposed to changes in interest rates;
- uses stress-testing.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable” applied to floating rate financial instruments. The level of these changes is determined by management. The sensitivity analysis below represents the effect of 1% increase/reduction in interest rates existing at the reporting date on the net profit of the Group assuming that the change took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

Impact on profit before tax:

|  | 31 December 2007    |                      | 31 December 2006    |                      |
|--|---------------------|----------------------|---------------------|----------------------|
|  | Interest rate<br>1% | Interest rate<br>-1% | Interest rate<br>1% | Interest rate<br>-1% |
| <b>Assets</b>  |                     |                      |                     |                      |
| Due from banks   | 435                 | (435)                | 117                 | (117)                |
| Loans to customers                                     | 24,652              | (24,652)             | 13,538              | (13,538)             |
| <b>Liabilities</b>                                     |                     |                      |                     |                      |
| Due to the National Bank of the<br>Republic of Belarus | (4,866)             | 4,866                | (4,711)             | 4,711                |
| Due to banks   | (9,999)             | 9,999                | (7,642)             | 7,642                |
| Customer accounts                                      | (21,498)            | 21,498               | (9,202)             | 9,202                |
| <b>Net impact on profit before tax</b>                 | <b>(11,276)</b>     | <b>11,276</b>        | <b>(7,900)</b>      | <b>7,900</b>         |

Impact on equity:

|   | 31 December 2007    |                      | 31 December 2006    |                      |
|---|---------------------|----------------------|---------------------|----------------------|
|   | Interest rate<br>1% | Interest rate<br>-1% | Interest rate<br>1% | Interest rate<br>-1% |
| <b>Assets</b>                                   |                     |                      |                     |                      |
| Investments in securities available<br>for sale | 11,581              | (10,996)             | 11,983              | (11,246)             |
| <b>Net impact on equity</b>                     | <b>305</b>          | <b>280</b>           | <b>4,083</b>        | <b>(3,346)</b>       |

### ***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 Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Department of Currency Regulation and Control manages the currency risk by means of setting and controlling the limits of open currency position for regional branches and Bank as a whole. Limits are set in compliance with regulatory requirements of the National Bank. Limits for different aspects of open currency position are promptly adjusted in case of changes in currency exchange rates and other factors affecting the currency risk level.

To minimize risk of losses on foreign exchange transactions branches are assigned sublimits of open currency position by type of currency. Maintenance of optimum open currency position within the set sublimit is achieved through re-distribution of foreign currency by means of balancing transactions of Treasury.

To control currency risk the Group uses value-at-risk calculations. Department of Currency Regulation and Control performs stress-testing of currency risk that allows estimating potential losses for open currency position in extreme situations. Stress-testing is performed with account of current situation on the currency market and utilizes approved methodology.

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

|   | <b>BYR and<br/>non-<br/>monetary<br/>items</b> | <b>USD<br/>1USD=<br/>BYR<br/>2,150.0</b> | <b>EUR<br/>1EUR=<br/>BYR<br/>3,166.73</b> | <b>RUB<br/>1RUB=<br/>BYR<br/>87.61</b> | <b>Other<br/>currencies</b> | <b>31 December<br/>2007<br/>Total</b> |
|---|--|--|---|--|-----------------------------|---------------------------------------|
| <b>ASSETS</b>   |  |  |   |  |                             |                                       |
| Cash and balances with the National Bank of the Republic of Belarus | 307,387  | 29,960                                   | 14,237                                    | 10,494                                 | 484                         | 362,562                               |
| Due from banks  | -  | 29,242                                   | 12,858                                    | 27,644                                 | 146                         | 69,890                                |
| Precious metals   | 1,730  | -  | -   | -                                      | -                           | 1,730                                 |
| Derivative financial instruments                                    | 20,790   | -  | -   | -                                      | -                           | 20,790                                |
| Loans to customers  | 5,554,682                                      | 511,997                                  | 573,613                                   | 124,483                                | -                           | 6,764,775                             |
| Investments in securities available for sale                        | 540,134  | -  | -   | -                                      | -                           | 540,134                               |
| Property, equipment and intangible assets                           | 253,148  | -  | -   | -                                      | -                           | 253,148                               |
| Current income tax assets   | 3,934  | -  | -   | -                                      | -                           | 3,934                                 |
| Other assets  | 41,873   | 819                                      | 200                                       | 47                                     | -                           | 42,939                                |
| <b>TOTAL ASSETS</b>   | <b>6,723,678</b>                               | <b>572,018</b>                           | <b>600,908</b>                            | <b>162,668</b>                         | <b>630</b>                  | <b>8,059,902</b>                      |
| <b>LIABILITIES</b>  |  |  |   |  |                             |                                       |
| Due to the National Bank of the Republic of Belarus                 | 551,561  | -  | -   | -                                      | -                           | 551,561                               |
| Due to banks  | 488,672  | 105,720                                  | 595,058                                   | 89,190                                 | 2                           | 1,278,642                             |
| Derivative financial instruments                                    | 23   | -  | -   | -                                      | -                           | 23                                    |
| Customer accounts   | 2,862,473                                      | 712,828                                  | 307,141                                   | 78,561                                 | 49                          | 3,961,052                             |
| Debt securities issued  | 25,269   | 10,258                                   | 5,038                                     | -                                      | -                           | 40,565                                |
| Current income tax liabilities                                      | 2,330  | -  | -   | -                                      | -                           | 2,330                                 |
| Other liabilities   | 41,249   | 4,600                                    | 5,290                                     | 681                                    | -                           | 51,820                                |
| <b>TOTAL LIABILITIES</b>  | <b>3,971,577</b>                               | <b>833,406</b>                           | <b>912,527</b>                            | <b>168,432</b>                         | <b>51</b>                   | <b>5,885,993</b>                      |
| <b>OPEN BALANCE SHEET POSITION</b>                                  | <b>2,752,101</b>                               | <b>(261,388)</b>                         | <b>(311,619)</b>                          | <b>(5,764)</b>                         | <b>579</b>                  |                                       |

### Spot and derivative financial instruments

Fair value of the spots and derivatives is included in the currency analysis presented above and the following table presents further analysis of currency risk by types of spots and derivative financial instruments as of 31 December 2007:

|   | <b>BYR</b>       | <b>USD<br/>1USD=<br/>BYR<br/>2,150.0</b> | <b>EUR<br/>1EUR=<br/>BYR<br/>3,166.73</b> | <b>RUB<br/>1RUB=<br/>BYR<br/>87.61</b> | <b>Other<br/>currencies</b> | <b>31 December<br/>2007<br/>Total</b> |
|---|------------------|--|---|--|-----------------------------|---------------------------------------|
| Accounts payable on spot and forward contracts                        | (511,562)        | (17,077)                                 | -   | -                                      | -                           | (528,639)                             |
| Accounts receivable on spot and forward contracts                     | -                | 236,500                                  | 281,396                                   | 10,743                                 | -                           | 528,639                               |
| <b>NET SPOT AND DERIVATIVE<br/>FINANCIAL INSTRUMENTS<br/>POSITION</b> | <b>(511,562)</b> | <b>219,423</b>                           | <b>281,396</b>                            | <b>10,743</b>                          | <b>-</b>                    |                                       |
| <b>TOTAL CURRENCY POSITION</b>  | <b>2,240,539</b> | <b>(41,965)</b>                          | <b>(30,223)</b>                           | <b>4,979</b>                           | <b>579</b>                  |                                       |

|   | <b>BYR and<br/>non-<br/>monetary<br/>items</b> | <b>USD<br/>1USD=<br/>BYR<br/>2,140</b> | <b>EUR<br/>1EUR=<br/>BYR<br/>2,817.31</b> | <b>RUB<br/>1RUB=<br/>BYR<br/>81.13</b> | <b>Other<br/>currencies</b> | <b>31 December<br/>2006<br/>Total</b> |
|---|--|--|---|--|-----------------------------|---------------------------------------|
| <b>ASSETS</b>   |  |  |   |  |                             |                                       |
| Cash and balances with the National Bank of the Republic of Belarus | 121,855  | 11,421                                 | 4,536                                     | 4,540                                  | 218                         | 142,570                               |
| Due from banks  | 78,028   | 19,602                                 | 11,958                                    | 18,752                                 | 114                         | 128,454                               |
| Precious metals   | 1,271  | -                                      | -   | -                                      | -                           | 1,271                                 |
| Derivative financial instruments                                    | 13,812   | -                                      | -   | -                                      | -                           | 13,812                                |
| Loans to customers  | 3,697,165                                      | 197,531                                | 330,488                                   | 20,515                                 | -                           | 4,245,699                             |
| Investments in securities available for sale                        | 423,107  | -                                      | -   | -                                      | -                           | 423,107                               |
| Long-term Government bonds classified as loans and receivables      | 319,199  | -                                      | -   | -                                      | -                           | 319,199                               |
| Property, equipment and intangible assets                           | 190,471  | -                                      | -   | -                                      | -                           | 190,471                               |
| Current income tax assets   | 5,377  | -                                      | -   | -                                      | -                           | 5,377                                 |
| Other assets  | 20,468   | 20                                     | 1,667                                     | 5                                      | -                           | 22,160                                |
| <b>TOTAL ASSETS</b>   | <b>4,870,753</b>                               | <b>228,574</b>                         | <b>348,649</b>                            | <b>43,812</b>                          | <b>332</b>                  | <b>5,492,120</b>                      |
| <b>LIABILITIES</b>  |  |  |   |  |                             |                                       |
| Due to the National Bank of the Republic of Belarus                 | 531,993  | -                                      | -   | -                                      | -                           | 531,993                               |
| Due to banks  | 185,505  | 10,477                                 | 554,950                                   | 16,342                                 | 2                           | 767,276                               |
| Derivative financial instruments                                    | 15   | -                                      | -   | -                                      | -                           | 15                                    |
| Customer accounts   | 1,875,164                                      | 416,125                                | 103,137                                   | 23,360                                 | 1                           | 2,417,787                             |
| Debt securities issued  | 9,561  | 6,183                                  | -   | -                                      | -                           | 15,744                                |
| Current income tax liabilities                                      | 1,387  | -                                      | -   | -                                      | -                           | 1,387                                 |
| Other liabilities   | 25,926   | 579                                    | 3,429                                     | 46                                     | -                           | 29,980                                |
| <b>TOTAL LIABILITIES</b>  | <b>2,629,551</b>                               | <b>433,364</b>                         | <b>661,516</b>                            | <b>39,748</b>                          | <b>3</b>                    | <b>3,764,182</b>                      |
| <b>OPEN BALANCE SHEET POSITION</b>                                  | <b>2,241,202</b>                               | <b>(204,790)</b>                       | <b>(312,867)</b>                          | <b>4,064</b>                           | <b>329</b>                  |                                       |

### Spot and derivative financial instruments

Fair value of the spots and derivatives is included in the currency analysis presented above and the following table presents further analysis of currency risk by types of spots and derivative financial instruments as of 31 December 2006:

|   | <b>BYR</b>       | <b>USD<br/>1USD=<br/>BYR<br/>2,140</b> | <b>EUR<br/>1EUR=<br/>BYR<br/>2,817.31</b> | <b>RUB<br/>1RUB=<br/>BYR<br/>81.13</b> | <b>Other<br/>currencies</b> | <b>31 December<br/>2006<br/>Total</b> |
|---|------------------|--|---|--|-----------------------------|---------------------------------------|
| Accounts payable on spot and forward contracts                | (340,934)        | (7,480)                                | (15,223)                                  | -                                      | -                           | (362,637)                             |
| Accounts receivable on spot and forward contracts             | 1,000            | 46,253                                 | 316,384                                   | -                                      | -                           | 362,637                               |
| <b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b> | <b>(339,934)</b> | <b>38,773</b>                          | <b>301,161</b>                            | <b>-</b>                               | <b>-</b>                    |                                       |
| <b>TOTAL CURRENCY POSITION</b>                                | <b>1,901,268</b> | <b>(166,017)</b>                       | <b>(11,706)</b>                           | <b>4,064</b>                           | <b>329</b>                  |                                       |

### *Currency risk sensitivity*

The following tables detail the Group's sensitivity to expected increase and decrease in the USD, EUR and RUB against the BYR. 1% for USD and 10% for other currencies is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for expected change in foreign currency rates.

|                          | <b>31 December 2007</b> |                | <b>31 December 2006</b> |                |
|--------------------------|-------------------------|----------------|-------------------------|----------------|
|                          | <b>BYR/USD</b>          | <b>BYR/USD</b> | <b>BYR/USD</b>          | <b>BYR/USD</b> |
|                          | <b>1%</b>               | <b>-1%</b>     | <b>1%</b>               | <b>-1%</b>     |
| Impact on profit or loss | (420)                   | 420            | (1,660)                 | 1,660          |
| Impact on equity         | (420)                   | 420            | (1,660)                 | 1,660          |
|                          | <b>BYR/EUR</b>          | <b>BYR/EUR</b> | <b>BYR/EUR</b>          | <b>BYR/EUR</b> |
|                          | <b>10%</b>              | <b>-10%</b>    | <b>10%</b>              | <b>-10%</b>    |
| Impact on profit or loss | (3,022)                 | 3,022          | (1,171)                 | 1,171          |
| Impact on equity         | (3,022)                 | 3,022          | (1,171)                 | 1,171          |
|                          | <b>BYR/RUB</b>          | <b>BYR/RUB</b> | <b>BYR/RUB</b>          | <b>BYR/RUB</b> |
|                          | <b>10%</b>              | <b>-10%</b>    | <b>10%</b>              | <b>-10%</b>    |
| Impact on profit or loss | 498                     | (498)          | 406                     | (406)          |
| Impact on equity         | 498                     | (498)          | 406                     | (406)          |

### *Limitations of sensitivity analysis*

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas certain assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholders' equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

## 32. UNCERTAINTY

***Economy of the Republic of Belarus*** - The economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. 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 Group's control. The future direction of the economic policy of the Government of the Republic of Belarus can have an effect on the recoverability of the Group's assets and the ability of the Group to maintain or pay its debts as they mature.

The management of the Group 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 Group 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 Group may face additional taxes and charges and other preventive measures. The management of the Group 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.