OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

Independent Auditors' Report

Consolidated Financial Statements
For the year ended 31 December 2006

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 2006

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 2006, 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 2006 were authorized for issue on 8 May 2007 by the management of the Bank.

On behalf of the Management:

Chairman	Chief Accountant
8 May 2007	8 May 2007

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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 balance sheet as of
31 December 2006, and the income statement, 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.

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

Without qualifying our opinion, we draw attention to Note 3, describing the restatement effect of consolidation of a subsidiary as of 31 December 2005.

Without qualifying our opinion, we draw attention to Note 15, disclosing the fact that due to the absence of a market for financial instruments having substantially the same terms and characteristics as the machinery and housing loans granted to agricultural enterprises under the program of the Government of the Republic of Belarus on agricultural sector financing, there is a considerable degree of uncertainty surrounding the determination of the market interest rate used to measure the loans and respective contributions to the share capital of the Bank at fair value at initial recognition.

Without qualifying our opinion, we draw attention to Note 31, describing uncertainties currently existing in the economic environment in the Republic of Belarus.

Deloitte & Touche

8 May 2007

Minsk

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
Interest income	5, 27	436,402	277,545
Interest expense	5, 27	(247,939)	(150,051)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		188,463	127,494
Initial recognition adjustment on interest bearing assets		(13,557)	(13,068)
Provision for impairment losses on interest bearing assets	6, 27	(33,773)	(16,082)
NET INTEREST INCOME		141,133	98,344
Net gain on foreign exchange operations	7	37,137	14,316
Fee and commission income	8, 27	134,458	105,452
Fee and commission expense	8	(8,859)	(4,766)
Net realized (loss)/ gain on investments available for sale		(451)	355
Other income	9	17,471	9,570
NET NON-INTEREST INCOME		179,756	124,927
OPERATING INCOME		320,889	223,271
OPERATING EXPENSES	10, 27	(203,162)	(155,292)
OPERATING PROFIT		117,727	67,979
Provision for impairment losses on other transactions	6	(2,595)	(1,605)
PROFIT BEFORE INCOME TAXES AND LOSS ON NET MONETARY POSITION		115,132	66,374
Loss on net monetary position due to inflation effect		-	(28,320)
PROFIT BEFORE INCOME TAXES		115,132	38,054
Income taxes expense	11	(22,012)	(31,053)
NET PROFIT		93,120	7,001
Attributable to:			
Shareholders of the Bank		93,120	7,001
Minority interest		-	-

On behalf of the Management:

Chairman
8 May 2007

Chief Accountant
8 May 2007

The notes on pages 9-49 form an integral part of these consolidated financial statements. The Independent Auditors’ Report is on page 2-3.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006
(in millions of Belarusian Roubles)

	Notes	31 December 2006	31 December 2005 (restated)
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	12, 27	142,570	154,187
Due from banks	13, 27	128,454	67,860
Precious metals		1,271	1,069
Derivative financial instruments	14	13,812	-
Loans to customers	15, 27	3,712,374	1,907,897
Investments in securities	16, 26	423,107	355,469
Property, equipment and intangible assets	17	190,471	169,984
Current income tax assets		5,377	3,315
Other assets	18	29,605	16,590
TOTAL ASSETS		4,647,041	2,676,371
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to the National Bank of the Republic of Belarus	19, 27	531,993	372,180
Due to banks	20, 27	767,276	95,424
Derivative financial instruments		15	-
Customer accounts	21, 27	2,417,787	1,454,641
Debt securities issued	22	15,744	6,889
Current income tax liabilities		1,387	1,674
Other liabilities	23, 27	40,354	21,072
Total liabilities		3,774,556	1,951,880
EQUITY:			
Share capital	24	1,033,130	976,525
Treasury shares		(35)	(35)
Accumulated deficit		(160,710)	(251,999)
Total equity attributable to shareholders of the Bank		872,385	724,491
Minority interest		100	-
Total equity		872,485	724,491
TOTAL LIABILITIES AND EQUITY		4,647,041	2,676,371

On behalf of the Management:

Chairman
8 May 2007

Chief Accountant
8 May 2007

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OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006
(in millions of Belarusian Roubles)

	Notes	Share capital	Treasury shares	Accumulated deficit	Total equity attributable to shareholders of the Bank	Minority interest	Total equity
31 December 2004		766,711	-	(255,603)	511,108	-	511,108
Share capital increase	24	209,814	-	-	209,814	-	209,814
Net profit		-	-	1,180	1,180	-	1,180
Dividends declared for 2004	24	-	-	(3,397)	(3,397)	-	(3,397)
31 December 2005 as previously reported		976,525	-	(257,820)	718,705	-	718,705
Effect of consolidation of subsidiary		-	(35)	5,821	5,786	-	5,786
31 December 2005 restated		976,525	(35)	(251,999)	724,491	-	724,491
Share capital increase	24	56,605	-	(17)	56,588	-	56,588
Dividends declared for 2005	24	-	-	(1,814)	(1,814)	-	(1,814)
Net profit		-	-	93,120	93,120	-	93,120
Setting up of subsidiary		-	-	-	-	100	100
31 December 2006		1,033,130	(35)	(160,710)	872,385	100	872,485

On behalf of the Management:

Chairman
8 May 2007

Chief Accountant
8 May 2007

The notes on pages 9-49 form an integral part of these consolidated financial statements. The Independent Auditors’ Report is on page 2-3.

OPEN JOINT STOCK COMPANY “BELAGROPROMBANK”

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		115,132	66,374
Adjustments for:			
Provision for impairment losses on interest bearing assets		33,773	16,082
Provision for impairment losses on other transactions		2,595	1,605
Amortization of discount on loans to customers		(26,626)	(16,094)
Fair value adjustment on loans upon initial recognition		13,557	13,068
Depreciation and amortization of property, equipment and intangible assets		10,548	7,753
Gain on disposal of property, equipment and intangible assets		(664)	(3)
Write-down of inventory to net realizable value		1,184	-
Change in interest accruals, net		(5,120)	(1,578)
Change in commission accruals, net		(316)	421
Gain of derivative financial instruments, net		(13,797)	-
Translation differences, net		2,240	1,274
Discount on acquisition of subsidiary		-	(5,745)
Change in present value of deferred consideration for subsidiary acquisition		238	-
Cash flows from operating activities before changes in operating assets and liabilities		132,744	83,157
Changes in operating assets and liabilities			
Increase in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		(575)	(27,829)
Due from banks		(79,057)	(29,483)
Precious metals		(202)	(178)
Loans to customers		(1,905,791)	(754,352)
Other assets		(6,145)	(1,561)
Increase in operating liabilities:			
Due to National Bank of the Republic of Belarus		160,016	187,325
Due to banks		654,912	17,530
Customer accounts		954,668	665,125
Other liabilities		13,383	1,151
Cash (outflow)/ inflow from operating activities before taxation		(76,047)	140,885
Income taxes paid		(24,361)	(32,981)
Net cash (outflow)/ inflow from operating activities		(100,408)	107,904
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(38,697)	(23,820)
Proceeds on sale of property, equipment and intangible assets		1,919	96
Investment in subsidiary		-	(10)
Payment of consideration for subsidiary acquisition		(550)	-
Proceeds on sale and redemption of investments available for sale, net		(61,543)	(242,527)
Net cash outflow from investing activities		(98,871)	(266,261)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006
(in millions of Belarusian Roubles)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase	24	160,246	218,139
Dividends paid		(1,814)	(3,397)
Cash received from minority		100	-
Proceeds on issue/ (repayment) of debt securities issued, net		8,735	(19,623)
Net cash inflow from financing activities		167,267	195,119
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(32,012)	36,762
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		717	(1,064)
INFLATION EFFECT ON CASH (INCLUDING CHANGE IN VALUATION ALLOWANCES)		-	(34,111)
CASH AND CASH EQUIVALENTS, beginning of year	12	111,723	110,136
CASH AND CASH EQUIVALENTS, end of year	12	80,428	111,723

Interest paid and received by the Group during the year ended 31 December 2006 amounted to BYR 240,992 million and BYR 397,709 million, respectively.

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

On behalf of the Management:

Chairman
8 May 2007

Chief Accountant
8 May 2007

The notes on pages 9-49 form an integral part of these consolidated financial statements. The Independent Auditors’ Report is on page 2-3.

(in millions of Belarusian Roubles unless otherwise stated)

1. ORGANISATION

Open Joint Stock Company “Belagroprombank” (“the Bank”) was incorporated in the Republic of Belarus by the National Bank of the Republic of Belarus 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. The Bank operates as the government agent in the realization of various government programs including financing of agriculture and subsidized construction of housing in rural areas.

As of 31 December 2006 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 in its right, to issue guarantees and carry out other banking operations as envisaged by the Banking Code. Bank also has license for professional and stock activity with securities.

The Bank’s organizational structure includes the Head Office, 6 Regional Banks, Minsk City Directorate, 121 local branch offices throughout the Republic of Belarus.

As of 31 December 2006 and 2005 the structure of the Bank’s share capital was the following:

Shareholder	2006	2005
Ministry of Economy of the Republic of Belarus	90.80%	86.88%
Region Executive Committees	7.97%	11.38%
Other	1.23%	1.74%
Total	100.00%	100.00%

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 and operation	The Bank’s ownership interest, % 2006	2005	Type of operation
PUE “Ozeritskiy-Agro”	Republic of Belarus	100%	100%	Agriculture
JSC “Agroleasing”	Republic of Belarus	66.7%	n/a	Finance leases

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 that occurred before 31 December 2005 and are recognized 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 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:

	31 December 2006	**31 December 2005**
Loans to customers	3,712,374	1,907,897
Equity investments	631	440
Derivative financial instruments (assets)	13,812	-
Derivative financial instruments (liabilities)	15	-

Loans to customers and equity investments are measured at amortized cost/cost less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgment. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

Functional currency

The functional currency of these consolidated financial statements 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 up to 31 December each year. 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 attributable to minority shareholders' interests are shown separately in the balance sheet and 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.

Investments in associates

An associate is an entity over which the Bank is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments.

Where the Bank transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

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 ("National Bank") 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.

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due to banks with fixed maturity are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks are carried net of any 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 Bank as an element of its treasury management and trading business.

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

Derivative financial instruments are initially recorded and subsequently measured at fair value. Fair values are obtained from the interest rates model. Most of the derivatives the Group enters into are of a short-term nature. 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 year in which they arise under net gain/ (loss) on foreign exchange operations for foreign currency derivatives.

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

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.

Allowance for impairment losses

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

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Allowances are made as a result of an individual appraisal of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to the consolidated income statement and the total of the allowance for impairment losses is deducted in arriving at assets as shown in 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.
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 lease is classified as a finance lease if:

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

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.

At the commencement of the lease term, the Group as a lessee recognizes finance leases as assets and liabilities in its balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. Depreciation of the lease property is charged in accordance with depreciation policy that is applied to property owned by the Group.

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 (except for the cases when total amount of re-measurement effect for the period is not material; then it is recognized in the consolidated income statement) 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 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. If the market for debt investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. 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 debt instruments, which are objectively related to events occurring after the impairment, are 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 any 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 any 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 and other real estate	1 – 2.5 %
Computer equipment	10 – 25 %
Vehicles	10 – 14 %
Furniture and other fixed 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 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.

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 or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the 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.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the 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.

Deposits from banks and customers

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

Share capital

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. Contributions made in form of cash burdened with obligation to grant loans on lower than market terms are recognized at an approximated fair value of respective assets as of the date of contribution. Contributions made in form of loans to the contributor (including Government's contributions made in form of government bonds) burdened with obligation to grant loans on lower than market terms are not recognized until the loans are issued.

Treasury shares are recognized at cost. Treasury shares repurchased before 1 January 2006 are carried at cost restated for inflation. Preferred shares that are non-redeemable are classified as equity.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the 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.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest 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.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated income statement when the syndication has been completed. 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

Monetary assets and liabilities denominated in foreign currencies are translated into BYR at the appropriate rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of 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 year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2006	31 December 2005
BYR/USD	2,140.00	2,152.00
BYR/EUR	2,817.31	2,546.35
BYR/RUB	81.13	74.86

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.

Accounting for the effects of hyperinflation

The Republic of Belarus was considered to be hyperinflationary in 2005 and prior years as defined by IAS 29. Accordingly, the comparative amounts to these consolidated financial statements were adjusted and reclassified to include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian Rouble for the hyperinflationary years ended 31 December 2005.

The restatement was made using the Consumer Price Index (“CPI”), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The CPIs for the five years ended 31 December 2005 were as follows:

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

Monetary assets and liabilities were not restated because they were already expressed in terms of the monetary unit current as of 31 December 2005. Non-monetary assets and liabilities (items which were not already expressed in terms of the monetary unit current as of 31 December 2005) were restated by applying the relevant index. The effect of inflation on the Group's net monetary position was included in the income statement as loss on net monetary position for the respective reporting period. Amounts included in the income statement have been indexed by the change in the CPI based on the following assumptions:

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

Restatement due to changes in IFRS

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") effective for accounting periods beginning on 1 January 2006 imposed restrictions on use of designation of financial assets or financial liabilities at fair value through profit or loss at initial recognition.

The Group de-designated all its financial assets previously designated at fair value through profit or loss since they do not qualify for such designation in accordance with amended IAS 39. These financial assets are classified as investments available for sale and accounted for as such (Note 16). De-designation was made retrospectively as required by transitional provisions of IAS 39. Fair value adjustments previously recognized in the income statement were immaterial and were not reclassified to equity.

Prior period restatements

In the financial statements for the year ended 31 December 2005, the Bank did not consolidate its subsidiary PUE "Ozeritskiy-Agro". Consolidation was performed in the financial statements for the year ended 31 December 2006. The restatement effect of consolidation of this subsidiary as of 31 December 2005 is as follows:

Consolidated balance sheet/ consolidated income statement item	Amount as per the previous report	Effect on the consolidated financial statements items	Amount as per current report
Total assets as of 31 December 2005	2,653,133	23,238	2,676,371
Total liabilities as of 31 December 2005	1,934,428	17,452	1,951,880
Total equity as of 31 December 2005	718,705	5,786	724,491
Treasury shares as of 31 December 2005	-	(35)	(35)
Net profit for the year ended 31 December 2005	1,180	5,821	7,001

Reclassifications

Certain reclassifications have been made to the consolidated financial statements as of 31 December 2005 to conform to the presentation as of 31 December 2006 as current year presentation provides better view of the financial position of the Group.

The amount of deposit in the National bank of the Republic of Belarus in excess of daily minimum deposit requirement was included into the cash and cash equivalent. As a result cash and cash equivalents as of 31 December 2005 and 2004 increased by BYR 18,630 million and BYR 993 million, respectively. The effect of foreign exchange rates changes on cash and cash equivalents and monetary items denominated in foreign currencies was separately disclosed in the cash flow statement for the year ended 31 December 2005.

Adoption of new standards

At the date of authorization of these financial statements, the following Standards and Interpretations applicable to the Group were issued but not yet effective:

- IFRS 7 "Financial Instruments: Disclosures" (effective 1 January 2007);
- Amendments to IAS 1"Presentation of financial statements" regarding disclosure on the Group's objectives, policies and processes of managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards in future periods.

4. GROUP REORGANIZATION

On 20 July 2006 the Bank set up the subsidiary Joint stock company "Agroleasing". The Bank's ownership interest in this subsidiary is 66.7%. JSC "Agroleasing" is a legal entity registered in the Republic of Belarus engaged in leasing activities.

Private Unitary Enterprise "Ozeritskiy-Agro", a 100% owned subsidiary set up by the Bank in November 2005, is a legal entity registered in the Republic of Belarus. The Bank invested BYR 10 million in the share capital of this company. The subsidiary was set up with the purpose of purchasing a loss-making agricultural enterprise under government program of supporting agricultural sector. In December 2005 the subsidiary has purchased 100% of agricultural enterprise "SPK Ozeritskiy", which is involved in agricultural activities and operates in the Republic of Belarus. Under the terms of the government incentive the purchase consideration was calculated as 20% of the subsidiary's net assets (as recorded in statutory accounting) and amounted to BYR 2,731 million. The payment consideration is arranged in three installments: 20% of the amount in the year 2006, 30% - in 2007 and 50% - in 2008 without any interest being charged. Fair value of deferred consideration was estimated as present value of expected cash flows and amounted to BYR 2,155 million as of the date of acquisition. Discount on acquisition was recognized in other income (Note 9).

The net assets of "SPK Ozeritskiy" as of the date of this acquisition were as follows:

Property, equipment and intangible assets	18,200
Cash	13
Accounts receivable and other current assets	8,854
Accounts payable and borrowings	(19,157)
	7,910
Fair value of deferred consideration	2,155
Cash contributed to the share capital of subsidiary	10
Total purchase consideration	2,165
Discount on acquisition	(5,745)

Since "SPK Ozeritskiy" was the customer of the Bank, cash acquired was eliminated in the consolidated financial statements against customer accounts, and therefore no cash inflow in this respect is shown in the consolidated statement of cash flows.

5. NET INTEREST INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income		
Interest on loans to customers	364,189	231,209
Interest on debt securities	43,854	25,049
Amortization of discount on loans to customers	26,626	16,094
Interest on due from banks	1,544	5,095
Other interest income	189	98
Total interest income	436,402	277,545
Interest expense		
Interest on customer accounts	163,696	126,145
Interest on due to banks	82,466	21,063
Interest on debt securities issued	682	2,842
Other interest expense	1,095	1
Total interest expense	247,939	150,051
Net interest income before provision for impairment losses on interest bearing assets	188,463	127,494

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Due from banks	Loans to customers	Total
31 December 2004	4	68,868	68,872
Provision	-	16,082	16,082
Write-off of assets	-	-	-
Gain on net monetary position	-	(5,709)	(5,709)
31 December 2005	4	79,241	79,245
Provision	-	33,773	33,773
Write-off of assets	-	(288)	(288)
31 December 2006	4	112,726	112,730

The movements in allowances for impairment losses on other transactions were as follows:

	Other assets	Guarantees and other commitments	Total
31 December 2004	-	293	293
Provision	983	622	1,605
Gain on net monetary position	(37)	(45)	(82)
31 December 2005	946	870	1,816
(Recovery of provision)/ provision	(946)	3,541	2,595
31 December 2006	-	4,411	4,411

Allowances for impairment losses on other 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:

	Year ended 31 December 2006	Year ended 31 December 2005
Dealing, net	39,377	15,590
Translation differences, net	(2,240)	(1,274)
Total net gain on foreign exchange operations	37,137	14,316

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Fee and commission income:		
Commission for transactions on customer accounts and other customer service fees	126,861	93,916
Commission on foreign exchange transactions	2,622	8,899
Commission on transactions with securities	271	394
Commission on transactions with banks	16	2,243
Other fee and commission income	4,688	-
Total fee and commission income	134,458	105,452
Fee and commission expense:		
Commission on transactions with banks	5,393	4,233
Commission on foreign exchange transactions	175	256
Commission on transactions with securities	79	170
Other fee and commission expense	3,212	107
Total fee and commission expense	8,859	4,766

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Revenue on agricultural activities earned by subsidiary	11,348	-
Payables expired, or forgiven or written off by creditors	3,008	-
Net gain from sale of property, equipment and other tangible assets	736	1,023
Fines and penalties received	677	1,180
Income from operating leases	285	325
Revenue from consulting services	103	80
Repayment of loans previously written off	23	125
Discount on acquisition of subsidiary (Note 4)	-	5,745
Other	1,291	1,092
Total other income	17,471	9,570

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Payroll, bonuses and other short-term employee benefits	83,452	62,064
Social security contribution	27,083	22,476
Taxes, other than income tax	19,551	17,750
Security expenses	11,286	9,835
Depreciation and amortization recognized as expense	10,548	7,753
Utilities, rentals and maintenance	10,152	8,707
Raw materials and inventory consumed in agricultural activities	7,228	-
Other staff costs	6,512	7,893
Stationery and other office expenses	4,587	2,482
Expenses on maintenance of banking software	4,172	2,856
Vehicles maintenance and fuel expenses	2,659	2,795
Professional services	2,422	1,708
Communications	1,958	2,040
Write-down of inventory to net realizable value	1,184	-
Other expenses	10,368	6,933
Total operating expenses	203,162	155,292

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 2006 and 2005, tax rate for Belarusian banks was 24% and 30% for the republican tax, and 4% and 3% for the municipal tax. The rates were charged successively. Therefore, in 2006 and 2005 the combined rate was 26.28% and 32.8%. PUE "Ozeritskiy-Agro" was not subject to income taxes.

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2006 and 2005 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 2006 and 2005 comprise:

	31 December 2006	31 December 2005
Deductible temporary differences:		
Due from banks and loans to customers	11,254	15,525
Derivative financial instruments	15	-
Property, equipment and intangible assets	21,123	18,965
Other assets	10,234	7,960
Other liabilities	10,866	870
Total deductible temporary differences	53,492	43,320
Taxable temporary differences:		
Accrued interest and commission income	(13,525)	(6,003)
Due to banks	(1,930)	-
Derivative financial instruments	(13,812)	-
Other assets	(101)	(5)
Total taxable temporary differences	(29,368)	(6,008)
Net deductible temporary differences	24,124	37,312
Deferred tax assets at the combined statutory rate 26.28%	6,340	9,806
Less deferred tax assets not recognized	(6,340)	(9,806)
Net deferred tax asset	-	-

Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income taxes	115,132	38,054
Tax at the statutory tax rate (26.28% and 32.8%)	30,257	12,482
Change in deferred tax assets not recognized	(3,466)	(5,095)
Effect of zero tax rate for PUE "Ozeritskiy-Agro"	(250)	(1,909)
Tax effect of other permanent differences	(4,529)	23,142
Effect of change in deferred tax rate	-	2,433
Income tax expense	22,012	31,053
Current income tax expense	22,012	31,053
Deferred income tax expense	-	-
Income tax expense	22,012	31,053

Deferred tax assets not recognized	Year ended 31 December 2006	Year ended 31 December 2005
At beginning of the period	9,806	14,901
Decrease in deferred tax assets not recognized	(3,466)	(6,199)
Gain on net monetary position	-	1,104
At end of the period	6,340	9,806

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

Cash and balances with the National Bank comprise:

	31 December 2006	31 December 2005
Cash	71,304	65,221
Balances with the National Bank	71,266	88,966
Total cash and balances with the National Bank of the Republic of Belarus	142,570	154,187

The balance with the National Bank as of 31 December 2006 and 2005 included amounts of BYR 71,218 million and BYR 88,966 million, respectively, which represented obligatory reserve deposit, of which minimum reserve deposit amounted to BYR 70,911 million and BYR 70,336 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:

	31 December 2006	31 December 2005
Cash and balances with the National Bank	142,570	154,187
Due from banks in OECD countries	8,769	27,872
	151,339	182,059
Less minimum reserve deposit with the National Bank	(70,911)	(70,336)
Total cash and cash equivalents	80,428	111,723

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2006	31 December 2005
Loans and term deposits from banks	95,718	3,246
Correspondent accounts and advances to banks	32,730	41,202
Loans under reverse repurchase agreements	10	23,416
	128,458	67,864
Less allowance for impairment losses	(4)	(4)
Total due from banks, net	128,454	67,860

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

Included in balances due from banks is accrued interest in the amount of BYR 45 million and BYR 226 million as of 31 December 2006 and 2005, respectively.

As of 31 December 2006 and 2005 included in balances due from banks were fixed amounts of BYR 4,966 and BYR 2,234 million, respectively, placed as guarantee deposits on letters of credit, operations with plastic cards and travel cheques and settlements with the international payment systems.

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

As of 31 December 2006 and 2005 a maximum credit risk exposure of balances due from banks amounted to BYR 128,454 million and BYR 67,860 million, respectively.

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Nominal amount (in units of currency to be purchased)	Net fair value	
		Asset	**Liability**
Foreign currency contracts (forwards and spots)			
EUR/BYR	EUR 110,000,000	13,805	-
USD/BYR	USD 14,500,000	-	13
USD/EUR	USD 7,113,320	7	-
EUR/USD	EUR 2,300,000	-	2
Total derivative financial instruments		**13,812**	**15**

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2006	31 December 2005
Originated loans	3,814,926	1,986,289
Net investment in finance lease	10,174	849
	3,825,100	1,987,138
Less allowance for impairment losses	(112,726)	(79,241)
Total loans to customers, net	3,712,374	1,907,897

As of 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to BYR 11,514 million and BYR 5,361million, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

	31 December 2006	31 December 2005
Loans collateralized by equipment and goods in turnover	1,409,661	840,318
Loans collateralized by guarantees of state bodies and local authorities	1,085,788	585,250
Loans collateralized by real estate	478,625	212,726
Loans collateralized by liens over receivables and goods	109,433	36,285
Loans collateralized by cash	39,046	-
Loans collateralized by other types of collateral	156,986	38,040
Unsecured loans	432,835	195,278
Total loans to customers, net	3,712,374	1,907,897

Analysis by industry:	31 December 2006	31 December 2005
Agriculture	2,120,523	1,002,425
Manufacturing	1,011,931	599,762
Trade	265,374	158,633
Individuals	137,056	32,441
Construction	60,657	25,325
Government bodies	59,581	62,503
Other	57,252	26,808
Total loans to customers, net	3,712,374	1,907,897

As of 31 December 2006 the Group provided loans to one borrower totaling BYR 132,308 million, which individually exceeded 10% of the Group's equity.

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

As of 31 December 2006 and 2005 a maximum credit risk exposure of loans to customers amounted to BYR 3,712,374 million and BYR 1,907,897 million, respectively.

Loans to individuals comprise the following products:

	31 December 2006	31 December 2005
Consumer loans	127,030	28,067
Mortgage loans	14,119	5,269
	141,149	33,336
Less allowance for impairment losses	(4,093)	(895)
Total loans to individuals, net	137,056	32,441

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 and several other minor types of beneficial loans. Interest rate housing loans is 3%, for machinery loans - 2%, loans for reconstruction - 3%.

Prior to 2005 funds for housing and machinery programs were provided to the Bank by the Government. Until 2004 the funds provided for the housing loan program bore 2% annual interest rate, in 2004 these funds were provided by means of direct contributions to share capital. The funds provided for machinery loan program were interest-free. These interest rates are significantly lower than the inflation rates in the Republic of Belarus. The machinery loans are granted for 7-10 years, housing loans – for 40 years with 3 year grace period for principal repayment. In 2005 a minor part of housing loans was granted from the resources provided by the Government of the Republic of Belarus by means of contributions to share capital, and for the majority of housing loans granted from the Bank's own resources in 2005, the Government compensated to the Bank the difference between the loan rate and refinance rate of the National Bank plus 3%. Machinery and reconstruction loans in 2005 were granted from the Bank's own resources without compensation.

In 2006 major part of housing loans was issued from the Bank's own resources with compensation of interest rates up to refinance rate of the National Bank plus 3%. A part of loans was issued from the resources received in the result of sale of the long-term government bonds received from the Government as contribution to share capital (Note 24).

Since 1999 upon the decisions of the President and the Government of the Republic of Belarus the liabilities relating to the funds attracted from the Government have been periodically capitalized and treated as contributions by the State to the share capital of the Bank. The capitalizations were made based on respective resolutions of the Government of the Republic of Belarus.

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" the Bank initially measures loans originated at other than market terms at approximated fair value using appropriate techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using an estimate of a market interest rate for short term corporate loans at the date of relevant instrument's inception. Where the resources for financing of these programs were borrowed by the Bank, the date of inception of the financial instrument is the date of capitalization of the respective borrowings into share capital. Subsequent amortization of the discount is recognized as interest income in the income statement. The originated loans and received borrowings are not recognized as assets and liabilities of the Bank until the borrowings are capitalized into share capital, as the Bank is not exposed to any credit risk in respect of loans granted before the capitalization date.

Due to the absence of the market for long-term loans and other long-term financial instruments having substantially the same terms and characteristics as the loans granted under the above mentioned programs, there is a considerable degree of uncertainty surrounding the determination of the interest rate used to measure such loans at fair value on initial recognition. The Bank has determined the interest rate for these loans to be equal to the refinance rate of the National Bank at the date of asset recognition plus 3%.

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

Amortized cost of the loans granted under the government programs as of 31 December 2006 and 2005 was BYR 1,226,548 million and BYR 682,490 million, respectively. The nominal value of the loans as of 31 December 2006 and 2005 was BYR 1,868,635 million and BYR 1,231,926 million, respectively.

Share capital contributions made by means of the capitalization of the funds received by the Bank under these programs were recognized at the approximated fair value of the respective loans as of the dates of capitalization (Note 24).

The components of net investment in finance lease as of 31 December 2006 and 2005 are as follows:

	31 December 2006	**31 December 2005**
Not later than one year	3,029	426
From one year to five years	7,975	552
Later than five years	1,705	-
Minimum lease payments	12,709	978
Less: unearned finance income	(2,535)	(129)
Net investment in finance lease	10,174	849

16. INVESTMENTS IN SECURITIES

Investments in securities comprise:

	31 December 2006	31 December 2005
Debt securities available for sale:		
Short-term government bonds ("GKO")	211,740	328,214
Long-term government bonds ("GDO")	210,736	25,871
Short-term bonds of the National Bank	-	944
	422,476	355,029
Corporate shares available for sale	546	355
Investment in associate	85	85
Total investments in securities	423,107	355,469

As of 31 December 2006 and 2005 interest income on debt securities amounting to BYR 11,255 million and BYR 5,160 million, respectively, was accrued and included in the investments available for sale.

Short-term government bonds ("GKO") - 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 ("GDO") - government securities with original maturity of over one year and coupon income that are issued by the Ministry of Finance of the Republic of Belarus.

As of 31 December 2005 GDO with the carrying value of BYR 113,106 million were pledged as collateral under loans received from the National Bank (Note 19).

Investment in an associate as of 31 December 2006 and 2005 comprised 24.6% share in ZAO "Platezhnaya systema "Belkart" (CJSC Payments system "Belkart").

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Computer equipment	Vehicles	Furniture and other fixed assets	Construc-tion in progress	Total
At cost restated for inflation						
31 December 2004	101,590	32,712	16,042	32,023	14,459	196,826
Additions	806	5,065	127	4,410	15,381	25,789
Purchased with subsidiary	10,771	7	139	4,625	2,658	18,200
Transfers	329	-	-	-	(329)	-
Disposals	(35)	(1,395)	(494)	(1,362)	-	(3,286)
31 December 2005	113,461	36,389	15,814	39,696	32,169	237,529
Additions	10,041	5,422	1,330	12,957	5,624	35,374
Transfers	27,611	(868)	-	747	(27,490)	-
Disposals	(3,045)	(2,027)	(1,087)	(1,810)	(69)	(8,038)
31 December 2006	148,068	38,916	16,057	51,590	10,234	264,865
Accumulated depreciation						
31 December 2004	10,022	26,477	11,508	14,978	-	62,985
Charge for the year	1,252	2,169	1,031	3,301	-	7,753
Disposals	(20)	(1,381)	(466)	(1,326)	-	(3,193)
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
Eliminated on disposals	(124)	(2,012)	(1,012)	(1,154)	-	(4,302)
31 December 2006	13,261	28,706	12,084	20,343	-	74,394
Net book value						
31 December 2006	134,807	10,210	3,973	31,247	10,234	190,471
31 December 2005	102,207	9,124	3,741	22,743	32,169	169,984

A part of depreciation charge for the year ended 31 December 2006 in the amount of BYR 603 million is included in value of inventory and work in progress from agricultural activities.

18. OTHER ASSETS

Other assets comprise:

	31 December 2006	31 December 2005
Inventory and work in progress from agricultural activities	7,891	5,528
Government grant receivable (Note 24)	7,445	-
Tax settlements, other than income tax	3,965	7,588
Prepayments for property, equipment and intangible assets	3,908	200
Prepayments and other debtors	3,420	2,069
Accrued commission income	1,885	1,569
Other	1,091	582
	29,605	17,536
Less allowance for impairment losses	-	(946)
Total other assets, net	29,605	16,590

Movements in allowances for impairment losses on other assets for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

As of 31 December 2006 and 2005 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".

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

As of 31 December 2006 and 2005 balances due to the National Bank of the Republic of Belarus were represented by loans from the National Bank, comprising accrued interest expense in the amount of BYR 2 million and BYR 205 million, respectively.

As of 31 December 2005 loans from the National Bank were collateralized by government debt securities owned by the Group with fair value of BYR 113,106 million (Note 16).

20. DUE TO BANKS

Due to banks comprise:

	31 December 2006	31 December 2005
Loans from other banks	484,464	95,061
Credit linked notes facility	196,433	-
Syndicated loan from a group of banks	85,542	-
Correspondent accounts of other banks	837	363
Total due to banks	767,276	95,424

As of 31 December 2006 and 2005 accrued interest expenses included in due to banks amounted to BYR 5,037 million and BYR 73 million, respectively.

As of 31 December 2006 and 2005 the balances due to banks in the amounts of BYR 373,301 million (49%) and BYR 38,038 million (40%), respectively, were due to 3 and 1 banks, which represented significant concentration.

As of 31 December 2006 included in balances due to banks is a syndicated loan facility from a group of European and Russian banks and non-banking financial institutions for the principal amount of EUR 30,000,000. The loan matures on 23 August 2007 and bears interest rate of Libor plus 4% per annum.

As of 31 December 2006 included in balances due to banks is credit linked notes facility in Euro organized by the VTB Bank Europe PLC for the principal amount of EUR 70,000,000. The loan matures on 13 December 2007 and bears interest rate of Euribor plus 4% per annum.

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2006	31 December 2005
Current deposits and deposits repayable on demand	1,413,702	325,136
Time deposits	1,004,085	1,129,505
Total customer accounts	2,417,787	1,454,641

As of 31 December 2006 and 2005 accrued interest expenses included in customers accounts amounted to BYR 9,310 million and BYR 7,249 million, respectively.

As of 31 December 2006 and 2005, customer accounts of BYR 13,295 million and BYR 7,295 million, respectively, were held as security against letters of credit issued by the Group.

As of 31 December 2006 and 2005, customer accounts of BYR 1,028,310 million (43% of total customer accounts) and BYR 399,208 million (27% of total customer accounts), respectively, were due to three customers, which represented significant concentration.

Analysis by industry:	31 December 2006	31 December 2005
Individuals	818,738	586,566
Government bodies	977,310	357,734
Manufacturing	415,400	324,699
Agriculture	90,157	84,134
Construction	58,801	41,688
Insurance and finance	24,294	27,116
Trade	13,476	9,757
Transport	9,842	3,479
Other	459	12,219
Accrued interest expense on customer accounts	9,310	7,249
Total customer accounts	2,417,787	1,454,641

22. DEBT SECURITIES ISSUED

	31 December 2006	31 December 2005
Bonds issued with a discount	15,605	-
Promissory notes	139	6,889
Total debt securities issued	15,744	6,889

23. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2006	31 December 2005
Trade payables on agricultural activities	13,888	13,806
Government grant deferred income (Note 24)	7,445	-
Provision for guarantees and other commitments	4,411	870
Taxes payable, other than income taxes	3,247	2,854
Provision for onerous contracts (Note 24)	2,928	-
Deferred consideration for subsidiary purchase (Note 4)	1,843	2,155
Other creditors	6,592	1,387
Total other liabilities	40,354	21,072

Movements in provisions for losses on guarantees and other commitments for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

24. SHARE CAPITAL

As of 31 December 2006 and 2005 the authorized, issued and fully paid share capital comprised 789,310,642 and 552,987,025,352 ordinary shares, respectively, with a par value of BYR 2,000 and BYR 2 each and 6,881 and 279,300 and preference shares with a par value of BYR 2,000 and BYR 2 each (all at statutory historical cost before fair value adjustment and restatement for hyperinflation). All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting 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.

2006 share capital increases included contribution from the Government in form of office premises in the amount of BYR 643 million.

2006 share capital increases included contributions from the Government in the amount of BYR 472,000 million made in October 2006. Contribution was made in form of long-term government bonds with maturities ranging from 2007 to 2013 and coupon rate of 10.5% per annum as of 31 December 2006. These bonds are not traded in the Belarusian Currency and Stock exchange unlike regular issues of this instrument and can only be sold to the National Bank of the Republic of Belarus. Per terms of the share capital contribution the proceeds on sale can be used only for granting loans under governmental housing loan program (Note 15) (no compensation of interest rates is provided for such loans). Until the year end Bank sold part of the bonds to the National Bank for the amount of BYR 160,246 million, and issued loans in the amount of BYR 155,748 million. The Bank recognized the increase in share capital in the amount of fair value of the assets contributed, i.e. the approximated fair value of the loans issued and the approximated discounted amount of loans to be issued from bond sale proceeds that were unused as of year end. Total amount recognized in relation to this contribution was BYR 55,945 million. The difference between nominal amount of unused proceeds and approximated fair value of loans to be issued from them amounted to BYR 2,928 million and was recognized as provision for onerous contracts in other liabilities (Note 23). The remainder of contribution and related government bonds not sold as of 31 December 2006 were not recognized in the balance sheet. Accrued interest income on these bonds in the amount of BYR 7,445 million was recognized as government grant receivable in other assets (Note 18), with related income deferred until the moment of loans issuance (Note 23), since the limitation on use of proceeds relates only to principal amount of bonds.

The table below provides reconciliation of total increase of share capital for the year ended 31 December 2006 shown in the consolidated statement of changes in equity and related cash inflow shown in consolidated statement of cash flows:

	Year ended 31 December 2006
Cash inflow from contribution burdened with issue of housing loans	160,246
Adjustment on discounting of issued housing loans	(101,373)
Adjustment for provision on unused proceeds	(2,928)
Recognized contribution burdened with issue of housing loans	55,945
Capitalization of statutory reserves	17
Contribution of office building	643
Total recognized increase of share capital	56,605

2005 share capital increases included capitalizations of funds borrowed from the Government of the Republic of Belarus for the financing of the governmental housing loan program (Note 15). The nominal value of these funds was BYR 1,138 million. Contributions were recognized at an approximated fair value of the respective loans as of the dates of the Decrees on capitalization of BYR 420 million.

2005 share capital increases also comprised cash contributions of the nominal amount of BYR 217,001 million. The cash contributions included BYR 11,986 million invested by the Government of the Republic of Belarus in cash burdened with conditions of the above mentioned governmental program (the fair value of these cash contributions as restated for hyperinflation was BYR 4,379 million). These contributions also included BYR 200,000 million invested by the Government of the Republic of Belarus in cash burdened with condition to purchase long term government bonds with the total face value of BYR 200,000 million, which were recognized in the nominal amount. As of 31 December 2005 securities purchased were included in securities available for sale (Note 16). Not burdened cash contributions amounted to BYR 5,015 million were recognized in the share capital in the nominal amount.

The dividends declared and paid in 2006 for 2005 amounted to BYR 0.00328 per ordinary share and BYR 0.3 per preference share. Total amount of dividends was BYR 1,814 million.

The dividends declared and paid in 2005 for 2004 amounted to BYR 0.00764 per ordinary share and BYR 20 per preference share. Total amount of dividends was BYR 3,397 million.

The dividends declared subsequently to 31 December 2006 amounted to BYR 4.74 per ordinary share and BYR 300 per preference share (Note 26).

As of 31 December 2006 and 2005 part of retained earnings of the Bank as per the statutory financial statements, representing the reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities, was not distributable to shareholders. This fund was created in accordance with the Bank's charter, which stipulated the retaining of profits for these purposes amounting to 15% of the Bank's share capital recorded in the Bank's statutory accounting.

25. FINANCIAL 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 for losses on letters of credit and guarantees amounted to BYR 4,411 million and BYR 870 million as of 31 December 2006 and 2005, respectively (Note 23).

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 2006 and 2005 the nominal or contract amounts and risk-weighted amounts were:

	31 December 2006		31 December 2005	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	38,277	38,277	16,021	16,021
Letters of credit	144,903	67,231	21,361	7,033
Commitments on loans and unused credit lines	63,909	20,170	11,643	-
Total contingent liabilities and credit commitments	247,089	125,678	49,025	23,054

Operating lease commitments – The Group had no material commitments for non-cancelable leases outstanding as of 31 December 2006 and 2005.

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 2006 and 2005, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

26. SUBSEQUENT EVENTS

Dividends in the amount of BYR 3,743 million for the year 2006 were declared and approved in March 2006, comprising BYR 3,741 million for ordinary shares and BYR 2 million for preference shares.

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 that gives then 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 2006 and 2005 with related parties:

	31 December 2006		31 December 2005	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Due from the National Bank of the Republic of Belarus	71,266	142,570	88,966	154,187
Due from banks	89,200	128,454	6,546	67,860
Including				
- state entities (under common control of the State)	89,200		6,546	
Loans to customers, gross	2,196,194	3,825,100	1,049,097	1,987,138
Including:				
- state entities (under common control of the State)	2,135,364		985,925	
- government bodies	60,143		62,993	
- key management personnel	687		179	
Allowance for impairment losses on loans to customers	(71,451)	(112,726)	(42,173)	(79,241)
Including:				
- state entities (under common control of the State)	(70,889)		(41,683)	
- government bodies	(562)		(490)	
Investments in securities, net	422,476	423,107	355,039	355,469
Including:				
- government bodies	422,476		355,039	
Due to the National Bank of the Republic of Belarus	531,993	531,993	372,180	372,180
Due to banks	146,391	767,276	52,054	95,424
Including:				
- state entities (under common control of the State)	146,391		52,054	
Customer accounts	1,136,569	2,417,787	551,627	1,454,641
Including:				
- state entities (under common control of the State)	977,310		393,742	
- government bodies	158,747		157,727	
- key management personnel	512		158	
Guarantees issued	2,101	38,277	5,767	16,021
Including:				
- state entities (under common control of the State)	2,101		5,767	
Letters of credit	76,904	144,903	11,766	21,361
Including:				
- state entities (under common control of the State)	76,904		11,766	
Commitments on credits and unused credit lines	34,933	63,909	2,689	11,643
Including:				
- state entities (under common control of the State)	34,933		2,689	
Provision for guarantees and letters of credit	1,902	4,411	311	870
Including:				
- state entities (under common control of the State)	1,902		311	

Included in the consolidated income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	141,221	436,402	96,552	277,545
Including:				
- customers - state entities (under common control of the State)	141,086		95,297	
- banks - state entities (under common control of the State)	135		1,255	
Fee and commission income	43,417	134,458	38,006	105,452
Including:				
- state entities (under common control of the State)	43,417		38,006	
Interest expenses	86,610	247,939	57,339	150,051
Including:				
- government bodies	63,770		28,404	
- banks - state entities (under common control of the State)	13,018		17,961	
- customers - state entities (under common control of the State)	9,786		10,961	
- key management personnel	36		13	
Provision for impairment losses on loans to customers	29,278	33,773	8,922	16,082
Including:				
- state entities (under common control of the State)	29,206		8,432	
- government bodies	72		490	
Operating expenses	4,151	203,162	1,072	155,292
Including:				
- key management personnel (remuneration)	4,151		1,072	
Income taxes expense	22,012	22,012	31,053	31,053

During the years ended 31 December 2006 and 2005 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 2006		31 December 2005	
	Carrying value	Fair value	Carrying value	Fair value
ASSETS				
Cash and balances with the National Bank of the Republic of Belarus	142,570	142,570	154,187	154,187
Due from banks	128,454	128,454	67,860	67,860
Derivative financial instruments	13,812	13,812	-	-
Debt securities available for sale	422,476	422,476	355,029	355,029
LIABILITIES				
Due to National Bank of the Republic of Belarus	531,993	531,993	372,180	372,180
Due to banks	767,276	767,276	95,424	95,424
Derivative financial instruments	15	15	-	-
Customer accounts	2,417,787	2,417,787	1,454,641	1,454,641
Debt securities issued	15,744	15,744	6,889	6,889

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

29. REGULATORY MATTERS

Quantitative measures established by regulation 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 2006 the Group’s total capital amount for capital adequacy purposes and tier 1 capital amount was BYR 872,485 million with ratio of 22.9%.

As of 31 December 2005 the Group’s total capital amount for capital adequacy purposes and tier 1 capital amount was BYR 724,491 million with ratio of 33.8 %.

30. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Liquidity risk

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

To minimize 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 Bank.

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 Bank:
- utilizes centralized approach to setting of 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 Bank 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 an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	31 December 2006		**31 December 2005**	
	BYR	**Foreign currencies**	**BYR**	**Foreign currencies**
ASSETS				
Due from banks				
- correspondent accounts	0%	3.7%	-	2.1%
- loans and term deposits	8.0%	8.3%	-	6.75%
Loans to customers	13.0%	10.3%	14.3%	10.40%
Debt securities available for sale	10.8%	-	10.8%	-
LIABILITIES				
Due to National Bank	7.8%	-	7.9%	-
Due to banks	9.7%	7.5%	7.6%	4.5%
Customer accounts				
- demand deposits	0.7%	0.1%	0.9%	0.4%
- term deposits	11.0%	8.0%	11.6%	6.9%
Debt securities issued	11.0%	8.0%	12.8%	4.0%

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

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2006 Total
ASSETS								
Due from banks	114,746	1,399	9,185	-	-	-	257	125,587
Loans to customers	339,493	503,803	1,257,648	697,220	872,797	41,413	-	3,712,374
Investments in securities	422,476	-	-	-	-	-	-	422,476
Derivative financial instruments	77	-	13,735	-	-	-	-	13,812
Total interest bearing assets	876,792	505,202	1,280,568	697,220	872,797	41,413	257	4,274,249
Cash and balances with the National Bank of the Republic of Belarus	71,659	-	-	-	-	-	70,911	142,570
Precious metals	1,271	-	-	-	-	-	-	1,271
Due from banks	2,867	-	-	-	-	-	-	2,867
Investments in securities	-	-	-	-	-	-	631	631
Property, equipment and intangible assets	-	-	-	-	-	-	190,471	190,471
Current income tax assets	5,377	-	-	-	-	-	-	5,377
Other assets	2,506	14,818	1,538	7,215	3,336	39	153	29,605
TOTAL ASSETS	960,472	520,020	1,282,106	704,435	876,133	41,452	262,423	4,647,041
LIABILITIES								
Loan from the National Bank of the Republic of Belarus	406,009	125,984	-	-	-	-	-	531,993
Due to banks	64,771	15,270	347,893	338,505	-	-	-	766,439
Derivative financial instruments	-	15	-	-	-	-	-	15
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	471,869	1,459,446	384,909	2,664	-	-	3,700,933
Due to banks	837	-	-	-	-	-	-	837
Customer accounts	31,045							31,045
Current income tax liabilities	1,387	-	-	-	-	-	-	1,387
Other liabilities	3,276	4,336	7,622	20,466	4,556	-	98	40,354
TOTAL LIABILITIES	1,418,590	476,205	1,467,068	405,375	7,220	-	98	3,774,556
Liquidity gap	(458,118)	43,815	(184,962)	299,060	868,913			
Interest sensitivity gap	(505,253)	33,333	(178,878)	312,311	870,133			
Cumulative interest sensitivity gap	(505,253)	(471,920)	(650,798)	(338,487)	531,646			
Cumulative interest sensitivity gap as a percentage of total assets	(11%)	(10%)	(14%)	(7%)	11%			

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2005 Total
ASSETS								
Due from banks	15,593	11,358	1,930	-	-	-	-	28,881
Loans to customers	256,663	339,126	504,418	402,039	373,104	32,547	-	1,907,897
Investments in securities	355,029	-	-	-	-	-	-	355,029
Total interest bearing assets	627,285	350,484	506,348	402,039	373,104	32,547	-	2,291,807
Cash and balances with National Bank of the Republic of Belarus	83,851	-	-	-	-	-	70,336	154,187
Precious metals	1,069	-	-	-	-	-	-	1,069
Due from banks	38,979	-	-	-	-	-	-	38,979
Investments in securities	-	-	-	-	-	-	440	440
Property, equipment and intangible assets	-	-	-	-	-	-	169,984	169,984
Current income tax asset	-	3,315	-	-	-	-	-	3,315
Other assets	2,184	4,325	6,808	3,273	-	-	-	16,590
TOTAL ASSETS	753,368	358,124	513,156	405,312	373,104	32,547	240,760	2,676,371
LIABILITIES								
Due to the National Bank	91,575	280,156	449	-	-	-	-	372,180
Due to banks	73,063	-	222	21,776	-	-	-	95,061
Customer accounts	411,866	106,378	574,889	38,615	-	-	-	1,131,748
Debt securities issued	6,433	-	-	24	-	-	-	6,457
Total interest bearing liabilities	582,937	386,534	575,560	60,415	-	-	-	1,605,446
Due to banks	363	-	-	-	-	-	-	363
Customer accounts	322,893	-	-	-	-	-	-	322,893
Debt securities issued	432	-	-	-	-	-	-	432
Current income tax liabilities	-	1,674	-	-	-	-	-	1,674
Other liabilities	2,564	145	11	17,482	-	-	870	21,072
TOTAL LIABILITIES	909,189	388,353	575,571	77,897	-	-	870	1,951,880
Liquidity gap	(155,821)	(30,229)	(62,415)	327,415	373,104			
Interest sensitivity gap	44,348	(36,050)	(69,212)	341,624	373,104			
Cumulative interest sensitivity gap	44,348	8,298	(60,914)	280,710	653,814			
Cumulative interest sensitivity gap as a percentage of total assets	2%	0%	(2%)	10%	24%			

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.

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 daily sublimits of open currency position by type of currency. Maintenance of optimum open currency position within the set sublimits is achieved through re-distribution of foreign currency by means of balancing transactions of Treasury.

To control currency risk the Bank uses value-at-risk calculations. Department of Currency Regulation and Control performs stress-testing of currency risk that allows to estimate 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:

	BYR and non-monetary items	USD 1USD= BYR 2,140	EUR 1EUR= BYR 2,817.31	RUB 1RUB= BYR 81.13	Other currencies	31 December 2006 Total
ASSETS						
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
Loans to customers	3,163,840	197,531	330,488	20,515	-	3,712,374
Investments available for sale	423,107	-	-	-	-	423,107
Property, equipment and intangible assets	190,471	-	-	-	-	190,471
Derivative financial instruments	13,812	-	-	-	-	13,812
Current income tax assets	5,377	-	-	-	-	5,377
Other assets	27,913	20	1,667	5	-	29,605
TOTAL ASSETS	4,025,674	228,574	348,649	43,812	332	4,647,041
LIABILITIES						
Loan from 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
Customer accounts	1,875,164	416,125	103,137	23,360	1	2,417,787
Debt securities issued	9,561	6,183	-	-	-	15,744
Derivative financial instruments	15	-	-	-	-	15
Current income tax liabilities	1,387	-	-	-	-	1,387
Other liabilities	36,300	579	3,429	46	-	40,354
TOTAL LIABILITIES	2,639,925	433,364	661,516	39,748	3	3,774,556
OPEN BALANCE SHEET POSITION	1,385,749	(204,790)	(312,867)	4,064	329	

Derivative financial instruments

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

	BYR	USD 1USD= BYR 2,140	EUR 1EUR= BYR 2,817.31	RUB 1RUB= BYR 81.13	Other currencies	31 December 2006 Total
Accounts payable on swap and forward contracts	(317,918)	(7,472)	(15,209)	-	-	(340,599)
Accounts receivable on swap and forward contracts	999	46,040	307,357	-	-	354,396
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(316,919)	38,568	292,148	-	-	13,797
TOTAL CURRENCY POSITION	1,068,830	(166,222)	(20,719)	4,064	329	

	BYR and non-monetary items	USD 1USD= BYR 2,152	EUR 1EUR= BYR 2,546.35	RUB 1RUB= BYR 74.86	Other currencies	31 December 2005 Total
ASSETS						
Cash and balances with the National Bank of the Republic of Belarus	127,723	15,635	5,741	4,608	480	154,187
Due from banks	24,557	21,104	13,001	9,122	76	67,860
Precious metals	1,069	-	-	-	-	1,069
Loans to customers	1,785,354	83,338	37,892	1,313	-	1,907,897
Investments in securities	355,469	-	-	-	-	355,469
Property, equipment and intangible assets	169,984	-	-	-	-	169,984
Current income tax asset	3,315	-	-	-	-	3,315
Other assets	16,487	90	7	6	-	16,590
TOTAL ASSETS	2,483,958	120,167	56,641	15,049	556	2,676,371
LIABILITIES						
Due to the National Bank of the Republic of Belarus	372,180	-	-	-	-	372,180
Due to banks	83,320	176	11,774	143	11	95,424
Customer accounts	1,194,869	203,120	47,113	9,537	2	1,454,641
Debt securities issued	6,865	24	-	-	-	6,889
Current income tax liabilities	1,674	-	-	-	-	1,674
Other liabilities	20,899	169	4	-	-	21,072
TOTAL LIABILITIES	1,679,807	203,489	58,891	9,680	13	1,951,880
OPEN BALANCE SHEET POSITION	804,151	(83,322)	(2,250)	5,369	543	

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The 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 stop-loss limits and margin and collateral requirements.

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 Bank 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 Bank'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 Bank 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 constantly monitored.

The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of the financial asset as presented in the consolidated financial statements and the disclosed financial commitments.

Geographical concentration

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

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2006 Total
ASSETS					
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
Loans to customers	3,712,374	-	-	-	3,712,374
Investments available for sale	423,107	-	-	-	423,107
Property, equipment and intangible assets	190,471	-	-	-	190,471
Derivative financial instruments	13,812				13,812
Current income tax assets	5,377	-	-	-	5,377
Other assets	29,605	-	-	-	29,605
TOTAL ASSETS	4,617,845	15,770	10,583	2,843	4,647,041
LIABILITIES					
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
Customer accounts	2,417,000	515	251	21	2,417,787
Debt securities issued	15,744	-	-	-	15,744
Derivative financial instruments	15	-	-	-	15
Current income tax liabilities	1,387	-	-	-	1,387
Other liabilities	40,354	-	-	-	40,354
TOTAL LIABILITIES	3,192,835	111,733	469,967	21	3,774,556
NET BALANCE SHEET POSITION	1,425,010	(95,963)	(459,384)	2,822	

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2005 Total
ASSETS					
Cash and balances with the National Bank of the Republic of Belarus	154,187	-	-	-	154,187
Due from banks	29,128	8,600	30,105	27	67,860
Precious metals	1,069	-	-	-	1,069
Loans to customers	1,907,897	-	-	-	1,907,897
Investments in securities	355,469	-	-	-	355,469
Property, equipment and intangible assets	169,984	-	-	-	169,984
Current income tax assets	3,315	-	-	-	3,315
Other assets	16,590	-	-	-	16,590
TOTAL ASSETS	2,637,639	8,600	30,105	27	2,676,371
LIABILITIES					
Due to the National Bank of the Republic of Belarus	372,180	-	-	-	372,180
Due to banks	84,607	-	6,151	4,666	95,424
Customer accounts	1,454,128	386	27	100	1,454,641
Debt securities issued	6,889	-	-	-	6,889
Current income tax liabilities	1,674	-	-	-	1,674
Other liabilities	21,072	-	-	-	21,072
TOTAL LIABILITIES	1,940,550	386	6,178	4,766	1,951,880
NET BALANCE SHEET POSITION	697,089	8,214	23,927	(4,739)	

31. 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.