



**Annual Report  
2002**

 **BELVNESHECONOMBANK**

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*Dear Shareholders, Customers and Business Partners,*

*Belvnesheconombank Supervisory and Management Boards have the honor to present the 2002 Annual Report to you.*

*In line with its institutional building strategy, the main thrust of Belvnesheconombank's activities in 2002 was to ensure a continued growth of its resource base and volumes of lending to the real sector of the economy, further improve liquidity and solvency, attain substantive loan portfolio quality improvements, raise customer service standards and thereby generate higher returns and profits.*

*Pursuing a considered and balanced lending policy and implementing resource-building measures, the Bank was able to advance still further in helping fulfill the country's most important investment projects and programs and serving foreign trade needs of domestic business entities. Belvnesheconombank retained its front-rank position and high stature in the country's banking community and enhanced its reputation of a solid and dependable partner in the financial markets both at home and abroad.*

*The year 2002 saw a dynamic expansion of the Bank in all its lines of business. The volume of loans issued both in national and foreign currencies rose 1.3 times against 2001 while the amount of foreign trade customer financing services totaled an equivalent of USD 242 million.*

*An important outcome of the past year was the implementation of a set of economic, organizational and procedural measures designed to raise the Bank's business efficiency that permitted to generate growth in net worth and income and attain an optimal balance in the structure of its assets and liabilities. Compared to the year before, profit scored a 2.2-fold increase while cost-effectiveness rose by 1.9 percentage points to reach 4.2%. There was a tangible improvement in the loan portfolio quality. Throughout the year, the Bank was consistently compliant with the regulatory standards prescribed by the National Bank of Belarus.*

*Buttressed by its high international profile, long-standing cooperation with foreign financial institutions and many years' experience, the Bank actively played in the domestic and international money markets expanding the volume of trading transactions. The year under review saw a further enhancement of interbank business relations and rationalization of the Belvnesheconombank correspondent banking network. Credit facility agreements signed with foreign partners in 2002, enabled the Bank to raise capital on a long-term basis.*

*Successes scored by the Bank stem in large part from our on-going commitment to implementing and developing state-of-the-art banking technologies and software products that help speed up payments and substantially enhance bank management capabilities. A customer-focused approach coupled with an ability to offer technologically advanced and competitive banking products and quality service contributed to a sizable growth in customer deposits and enhancement*



of the customer base. Among 484 newly recruited business customers there are foreign-owned companies, SMEs and private entrepreneurs.

*In pursuing its business development in 2003, Belvnesheconombank sees its main goals and strategic priorities in building up its assets and debt capital, attaining further loan portfolio quality improvements, exercising effective across-the-board cost management, implementing and developing new banking technologies, products and services, raising efficiency of the branch network and, ultimately, boosting the Bank's financial soundness.*

*Belvnesheconombank Supervisory and Management Boards are indebted to you, our shareholders, customers and business partners for your constructive and fruitful cooperation and close and mutually rewarding partnership, and wish all of you success in advancing your business. We highly value your ongoing commitment to the Bank and are confident that our combined effort to develop and augment the Bank's potential, consolidate its standing in the banking community and promote our mutually advantageous partner relations will gain a new impetus in the years ahead.*

On behalf of

The Supervisory Board

The Management Board

A blue ink signature in cursive script, reading "V. Drazhin".

Vladimir Drazhin  
Chairman

A blue ink signature in cursive script, reading "G. Egorov".

Georgy Egorov  
Chairman

## SUPERVISORY BOARD

### Elected at 2003 General Meeting of Shareholders

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#### CHAIRMAN

Vladimir DRAZHIN  
Deputy Prime Minister of the Republic of Belarus

#### DEPUTY CHAIRMEN

Pavel KALLAUR  
First Deputy Chairman of the Management Board  
of the National Bank of the Republic of Belarus

Andrey ARSHINOV  
Chairman of the Board of Directors,  
Deputy Chairman of the Management Board  
of OAO Natsionalny Kosmichesky Bank, Moscow

#### MEMBERS OF THE SUPERVISORY BOARD

Viktor GRIGORYEV  
First Vice President of ZAO GK Kaskol

Pavel GURIN  
Member of the Board of Directors  
of OAO Natsionalny Kosmichesky Bank, Moscow

Aleksandr KERNOZHITSKY  
Director of the Financial Department,  
Minsk City Executive Committee

Aleksandr KURLYPO  
Deputy Minister of Finance of the Republic of Belarus

Aleksandr MYACHIN  
Chairman of the Management Board  
of OAO Natsionalny Kosmichesky Bank, Moscow

Tatyana POLEGOSHKO  
Director of the Department of Methodology of Banking Accounting  
and Budgeting, National Bank of the Republic of Belarus

## MANAGEMENT BOARD

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#### CHAIRMAN OF THE BOARD

Georgy EGOROV

#### DEPUTY CHAIRMEN

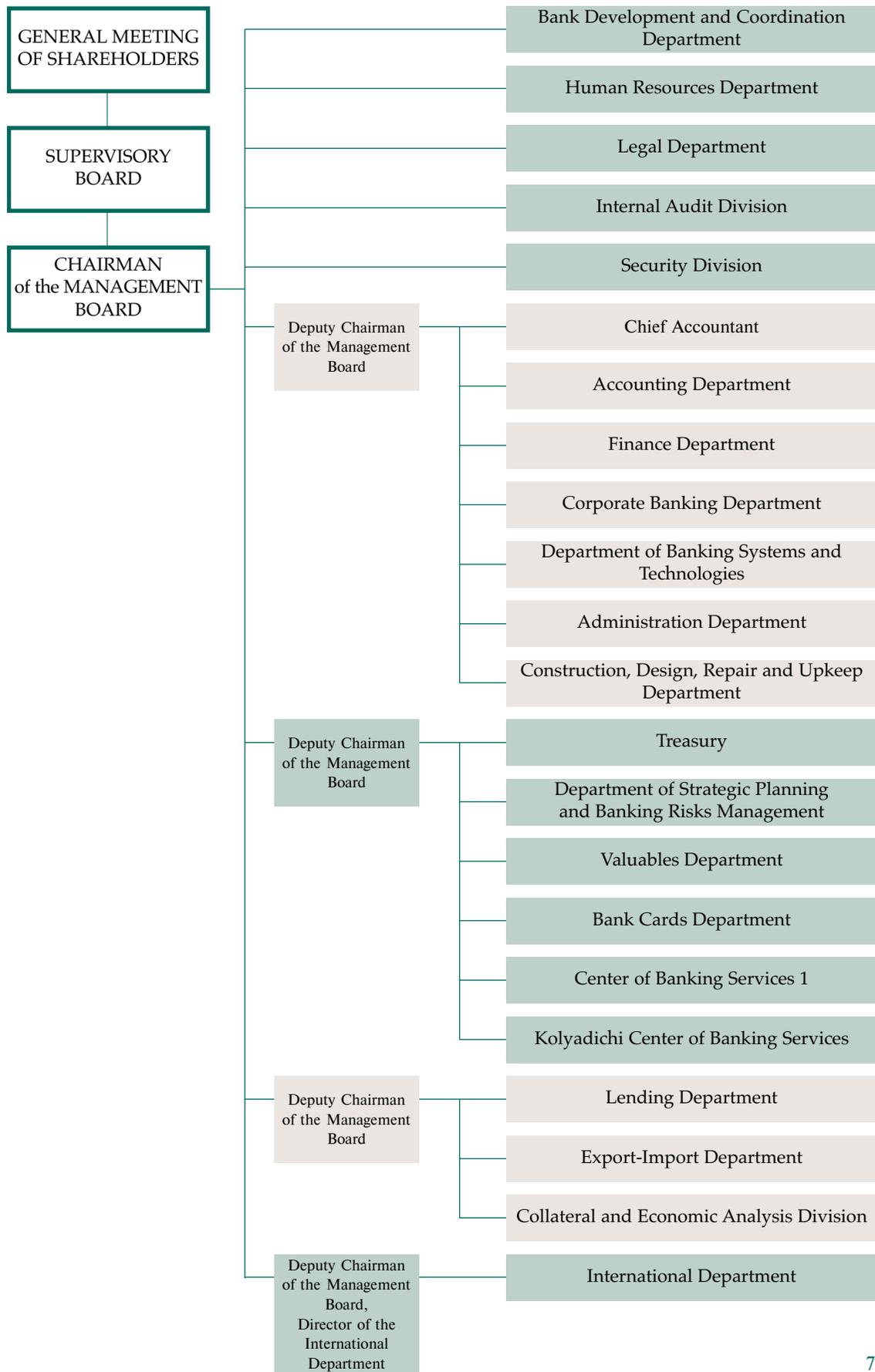
Sergey SHCHERBAK

Valentin ZAYASH

Dmitri KOULEVATSKY

Yuri TYAVLOVSKY

# ORGANIZATIONAL CHART



## AUTHORIZED CAPITAL AND SHAREHOLDERS

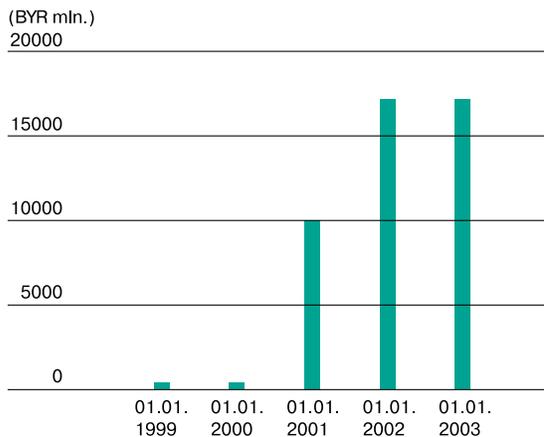
### Equity stakes of over 5% are managed by:

the National Bank of the Republic of Belarus;  
 OAO Natsionalny Kosmichesky Bank, Moscow;  
 Ministry of Economy of the Republic of Belarus;  
 Belarussian Steel Works Republican Unitary Enterprise, Zhlobin;  
 ZAO Pinskdrev, Pinsk.

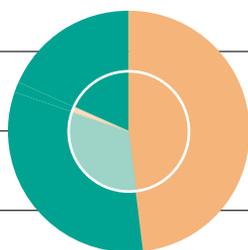
### Other major shareholders are:

Willesden Industries Limited, UK;  
 OAO Mozyr Oil Refinery;  
 ZAO Atlant, Minsk;  
 Belvneshstrakh Unitary Insurance Company of Belvnesheconombank, Minsk;  
 ZAO Belinterfinance Belarusian-Italian Joint Venture, Minsk;  
 Minsk City Territorial Fund of State Property;  
 ZAO Belagroitorg, Minsk;  
 Druzhba Republican Unitary Oil Transportation Enterprise, Novopolotsk;  
 Stroykomplekt Wholesaling Republican Unitary Enterprise, Minsk;  
 Department of Grain Products of the Ministry of Agriculture and Foodstuffs of the Republic of Belarus;  
 Republican Condensed Oil Gas Transportation and Supply Unitary Enterprise, Novopolotsk;  
 ZAO Cards, Systems and Technologies, Minsk.

### Dynamics of Authorized Capital Growth



### Authorized Capital Breakdown by Type of Ownership



Public sector - 48.2 %  
 Private - 51.8 %  
 including:  
 Foreign investors - 32.1 %  
 Individual investors - 1.5 %

The Bank's authorized capital remained unchanged in 2002 and amounted to BYR 17157.9 million as at January 1, 2003. A major part of the authorized capital is composed of freely convertible currency contributions comprising USD 13.06 million and EUR 0.59 million.

Among Belvnesheconombank's shareholders there are 853 legal entities and over 44 000 private individuals.

In compliance with the 2002 Guidelines of Belarus Monetary Policy, Belvnesheconombank geared its efforts towards accomplishing the tasks of the economic and social development of the nation.

In the accounting year, we continued to build up business relations with the largest export and import-oriented companies from the real sector of the economy, primarily from the petrochemical, machine-building and processing industries as well as efficiently-performing small and medium businesses with a proven financial track record.

Over the past year, customer indebtedness rose 1.6 times to reach BYR 242.2 billion as at January 1, 2003, including foreign currency borrowings in the equivalent of USD 108.3 million (85.8% of the total indebtedness against 82.4% in the previous year).

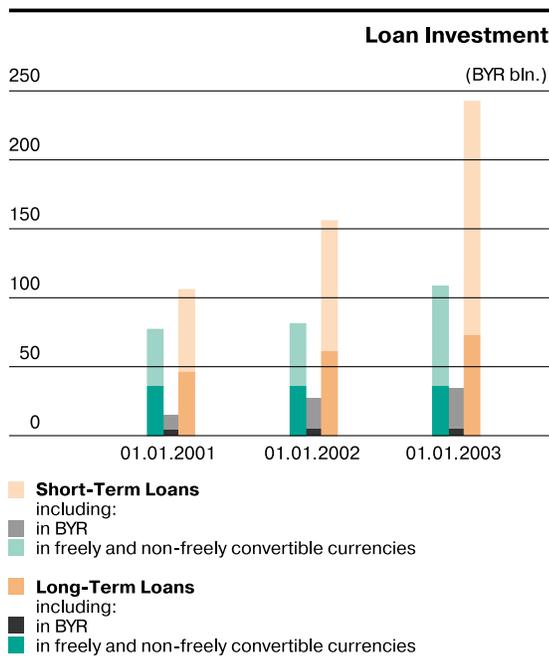
Belvnesheconombank accounts for about 11% of all credit input made by the country's commercial banking institutions. The amount of loans granted in foreign currency during 2002 was equivalent to USD 227 million, that in the national currency amounted to BYR 158.4 billion thereby surpassing the 2001 level by 36 and 33% respectively.

75% of all the loans made available during the year under review was earmarked for expanding production facilities (against 61% the year before).

In 2002, we continued to make service quality improvements and optimize borrowing costs for our customers. Interest rates charged on newly-issued loans were determined on a case-by-case

basis in accordance with the aggregate earnings from banking operations with each individual borrower. Some of the customers were granted loans applying monthly-adjusted flexible interest rates depending on the foreign currency balance increment in their accounts held with the Bank.

Among the largest borrowers were Belarusian Steel Works, Zhlobin, Mozyr Oil Refinery, Naftan, Novopolotsk, Khimvolokno-Mogilev, Horizont, Minsk, Minsk Automobile Plant, Lakokraska, Lida, Brest Dairy Plant, Neman Tobacco Factory, Grodno, and Spartak, Gomel. Owing to a loan in excess of USD 16.3 million extended in 2002, Belarusian Steel Works managed to complete a large-scale reconstruction of its production facilities without impairing its overall performance. As a consequence, its production output grew 102.6% while exports reached 102.3%.



In the year under review, we actively financed oil-refining and chemical industries. Mozyr Oil Refinery was given a loan of USD 76.8 million for the procurement of crude oil, a loan issued to Naftan for similar purposes amounted to USD 13.6 million. Khimvolokno-Mogilev received USD 9.7 million in loans to purchase raw materials and as much as BYR 11.1 billion to ensure its continuous operation.

The past year saw an increase in financial resources extended to Horizont. The company received a loan facility in excess of USD 17.7 million and uncovered L/Cs in the amount of USD 5.5 million. As a result, the company continued to implement its business programs of manufacturing TV-sets with advanced consumer properties, launching a range of 46 new models including the country's first flat-screen TV-set. Despite an increasingly fierce competition in the Russian market, Horizont managed to expand its exports and retain its market niche at the level of 8% owing to its production policy and the financial assistance rendered by the Bank.

Loans made available by the Bank to Minsk Automobile Plant, Belarus' automotive leader, helped to build up its export potential resulting in an increase of its export earnings by 59.6% and an almost two-fold rise in export sales outside the CIS countries.

Special attention was accorded by the senior management of the Bank to exercising a day-to-day control over strict compliance with the regulatory

requirements of the governmental authorities with regard to providing lending resources to the real sector of the economy and large investment projects. Over the year under review, a total of BYR 30.4 billion in the equivalent was loaned to pay off back wages in accordance with the resolutions of the Belarus Government.

lendings to the country's agroindustrial sector totaled the equivalent of BYR 32.8 billion. Of these, BYR 10.0 billion worth of loans, i.e. 30.4% of the total loan input, was provided in foreign currency. Zapadno-Dvinskiy Mezhrayagrotekhservice was granted a loan of EUR 2.2 million to make a prepayment under a contract with Stotz Agro-Service GmbH & Co. KG, Germany, on the delivery of agricultural machinery. The machinery (grain combine harvesters, disc mowers and swathers) envisaged by the contract was shipped to Belarus and leased out to farms in the Vitebsk Region.

In accordance with Presidential Executive Order No. 466 dated August 28, 2002 "On Certain Measures to Pay Off Debt Arrears for Agricultural Produce and Domestically Produced Foodstuffs", we set up credit facility lines of BYR 1.3 billion for consumer cooperatives to assist them in paying for agricultural produce purchased from farms and individual homesteads, and domestically produced foodstuffs (including transportation services).

The volume of investment lending channeled to the real sector of the economy increased by BYR 14.2 billion or 1.2 times and reached 34.5%.

We took part in the investment project of constructing a sporting and fitness facility within the Indoor Football Arena Complex built in Minsk. In order to finance the project, Vneshstroyinvest was granted a loan of USD 4.5 million. As at January 1, 2003, USD 1.7 million was disbursed to finance the project scheduled to become operational on September 1, 2003.

Under Resolution No. 1106 of the Belarus Council of Ministers dated July, 19, 1999 "On Measures to Upgrade Grodno Tobacco Factory", we issued a loan to finance a factory rehabilitation project. Owing to the credit resources in the amount of USD 10.7 million provided by Belvnesheconombank, the Factory purchased and put into operation leaf-blending, cigarette-making and packing lines in November-December 2002. As a result, the enterprise was able to attain a substantial increase in output volumes and product quality, and upgrade its product range.

We also continued to promote the use of such promising lending vehicles as P-note-based lending, financial leasing, etc. In this context, we purchased technological equipment, basically multi-purpose milling machines, from non-resident companies (Germany, Switzerland) and leased it out to Peleng for a period of 24 months under a financial leasing arrangement within the framework of the company's retooling program. The total value of lease contracts concluded with Peleng amounted to EUR 2.2. Under a EUR 0.3-million 36-month lease agreement with Pakoplast, we supplied an Italian-made line for the produc-

tion of thermoplastic parts for the perfumes and cosmetics industry. That will permit Pakoplast to turn out an extra USD 98 000 worth of goods per month.

#### **Support of Exporting Industries out of Proceeds from the Export Promotion Fund**

In 2002, we continued to finance exporting industries out of disbursements from the Export Promotion Fund (EPF). During the year under review, we received applications for EPF loans from ten companies. After assessing their business plans and financial statements, we submitted our evaluation reports concerning nineteen applications from exporting companies, including nine applications received in 2001, for consideration by the Export Promotion Committee under the Belarus Council of Ministers.

In accordance with the decision of the Export Promotion Committee, fourteen enterprises, including eight enterprises found eligible for EPF financing in 2001, received a total of BYR 1 573 million in loans.

In 2002, the Export Promotion Fund was formed out of loan repayments and interest payments in the total amount of BYR 3 797.6 million.

Owing to the implementation of projects financed out of EPF loan disbursements, in 2001-2002 the beneficiary companies enhanced their market position and increased exports by BYR 50 billion.

As at January 1, 2003, 44 exporting companies owed a total of BYR 14 649 million in principal debt. The amount of margin earned by the Bank from EPF operations in 2002 reached BYR 227 million.

### **Overseas Credit Lines**

Export (tied) loans granted by overseas banks under guarantees of the Belarus Government are one of the main sources of providing lending resources to the real sector of the economy, primarily, towards the implementation of investment projects.

Under three individual loan agreements signed in 2002, EUR 30.1 million was disbursed within the framework of the AKA/Hermes credit line extended by Germany for the purchase of agricultural machinery by Belagrosnab and Zapadno-Dvinskiy Mezhrayagrotekhservice. In accordance with the contracts concluded by these companies, 126 combine harvester construction kits, 65 grain combine harvesters, 49 fodder harvesters, 90 swathers and 405 mowers were delivered to Belarus.

We continued to operate as a servicing bank with regard to the loan facility granted in two tranches of EUR 33.0 million and EUR 6.8 million by Bayerische Landesbank Girozentrale, Munich/Germany, to Belarusian Steel Works under the Belarus Government Guarantee for the implementation of an investment project of 320/150 Mill upgrading.

In accordance with Standard Loan Agreement No. 1 in the amount of EUR 3.5 million signed with Bayerische Hypo- und Vereinsbank, Munich/Germany, loan disbursements were made to start the construction of the building of the School of International Relations of Belarusian State University.

Under the Austrian credit line we continued to discharge the functions of a dispensing bank with regard to projects of the Ministry of Public Health, Mozyr Oil Refinery, Molodechno Meat-Processing Factory and Fandok Wood-Processing Factory financed by Bank Austria Creditanstalt AG.

Under the credit facility established by the Czech Export Bank, USD 21.7 million was disbursed in the course of 2002 to fund the implementation of BELAZ projects.

In accordance with Decree No. 693 dated May, 29, 2002 issued by the Belarus Council of Ministers, Belvnesheconombank was appointed to provide maintenance service with regard to the loan of Kuwaiti Dinars 5.1 million extended by the Kuwait Fund for Arab Economic Development to the Republic of Belarus for the implementation of a polyester plant development project at Khimvolokno-Svetlogorsk. A total of KD 86.1 thousand has been disbursed since the project got under way in September 2002.

With a view to expanding trade relations between Belarus and Iran, on October 3, 2002 Belvnesheconombank entered into a Short- and

Medium-Term Credit Facility Agreement with the Export Development Bank of Iran on setting up a credit facility of up to USD 20 million for issuing tied export loans under the guarantee of the Belarus Government.

In 2002, we financed the purchase of equipment in the amount of USD 490 thousand for the production of fast-ripening cheese and curds at Brest Dairy Plant out of proceeds of a loan extended by Bank Handlowy w Warszawie, Poland, without the guarantee of the Belarus Government.

### **Objectives for the Year 2003**

The main objective of the Bank's lending policy in 2003 is to add to the quality and income yield of the loan portfolio by minimizing and diversifying risk exposures.

In carrying out our lending operations we will continue to build up cooperation with large, dynamically developing companies from the country's key industries (steel, chemical, oil, light, food, automotive, tractor, machine-building, and wood-working industries). We also plan to

expand lending to effectively operating small and medium businesses by extending microcredits using simplified loan documentation procedures.

It is planned to increase the amount of lending to the general public to purchase homes and consumer goods. The share of such loans is to be raised to 10% of the total loan input of the Bank in 2003. In order to broaden the range of services available to the Bank's customers it is envisaged to further expand the use of documentary and P-note-based lending instruments.

Aware of the importance and necessity of rehabilitating and retooling the manufacturing base of the real sector of the economy, the Bank will primarily channel its resources towards meeting corporate customer investment needs. In view of the growing customer interest in financial leasing, this segment of our operations is also to be expanded.

Syndicated lending is planned to be more widely applied in order to diversify credit exposures across the loan portfolio as a whole and attain risk minimization and distribution within individual projects.

## INTERNATIONAL SETTLEMENTS AND TRADE FINANCE

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International export-import settlements and foreign trade finance remained to be among the Bank's top business priorities in 2002. Our concerted work in this segment of the market helped us retain the long-established stature of the country's leading export-import-oriented bank. The bulk of customer settlements was effected under contracts of Belarusian exporters. The past year witnessed an increase in documentary business.

During the accounting year, we actively used documentary credit facility lines opened by foreign banks. Owing to our concerted and mutually advantageous cooperation with Commerzbank AG (Frankfurt/Main) the latter enlarged the documentary credit line previously opened for Belvnesheconombank.

Over 2002, a total of 323 L/Cs worth USD 45.4 million (without counting those opened under intergovernmental loan agreements) were opened including 220 confirmed L/Cs (68.1% of the total) in the amount of USD 30.9 million and 103 unconfirmed L/Cs (31.9% of the total) in the amount of USD 14.5 million. 210 of them (65%) worth USD 29.4 million (64.9%) were issued as uncovered L/Cs, and 93 (28.9%) in the amount of USD 9.4 million (20.7%) as covered L/Cs. 20 L/Cs (6.1%) worth USD 6.5 million (14.4%) were paid using the Bank's own credit resources. In the accounting year, the Bank's International Department advised 152 export L/Cs in the total amount of USD 80.8 million.

Uncovered L/Cs were extensively used to free our customers of an obligation to transfer cover funds at the time of L/C opening.

233 L/Cs (72.1% of the total L/Cs opened during the accounting year) worth USD 35.7 million (78.6%) were opened on instructions of the Bank's largest corporate customers.

A total of 91 L/Cs in the aggregate amount of USD 18.5 million were opened with confirmation under documentary credit lines put in place by Russian and West European banks. In addition, our customers could make use of an L/C post financing service arranged with foreign counterparty banks. During the past year, 10 L/Cs totaling USD 986 300 were financed under this arrangement.

In 2003, we plan to expand the use of such payment instruments as uncovered L/Cs and post-financing by foreign banks.

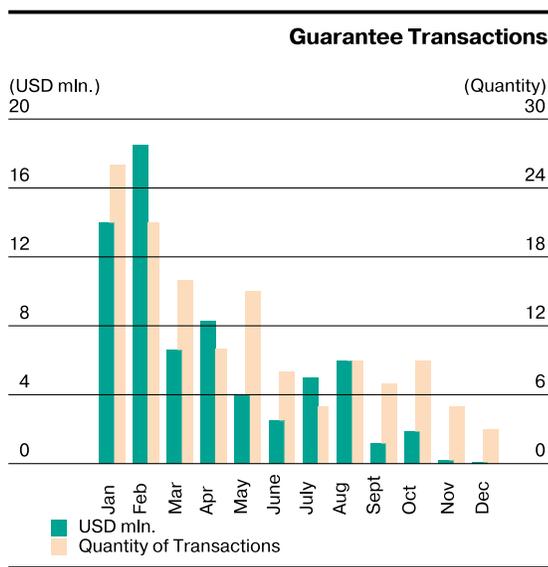
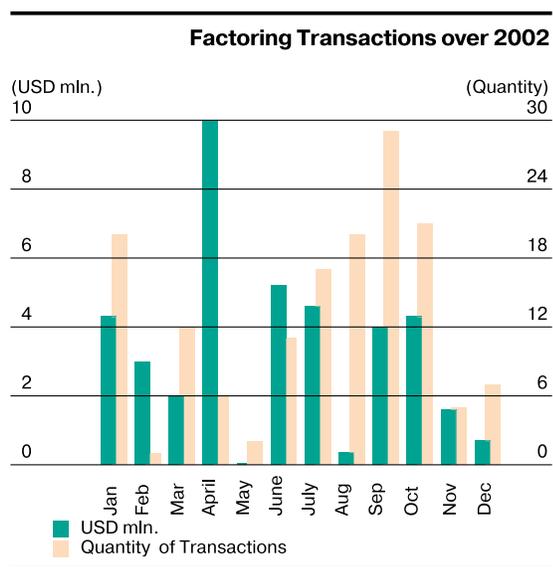
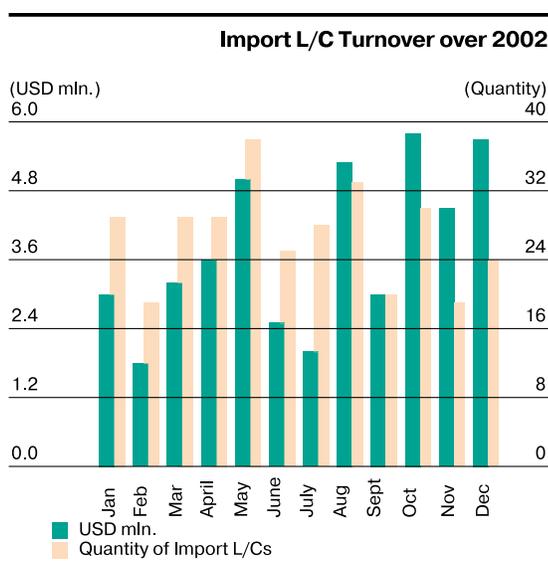
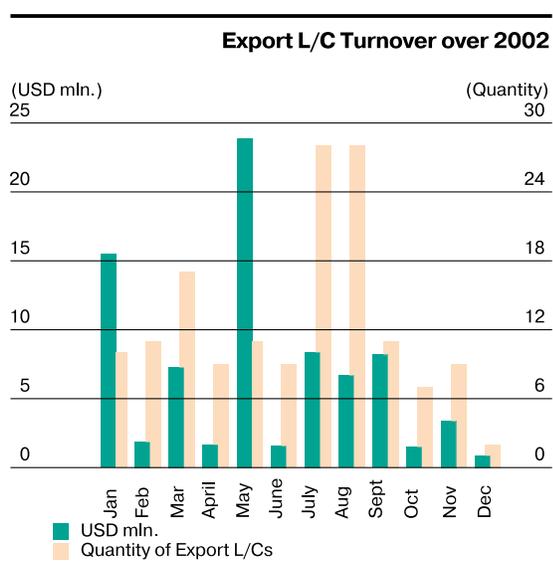
Over the past year, the Bank issued 134 payment guarantees in an equivalent of USD 68.3 million on customer requests with 36 of them denominated in BYR. On instructions of our major corporate customers we made out loan repayment guarantees in respect of low-cost funds raised from non-resident entities. A total of 29 loan repayment guarantees worth USD 46.5 million were issued by the Bank. In order to secure their obligations under bank guarantees, our customers were to open security deposit accounts subject to relevant guarantee agreements. Over 2002, such security

deposit accounts accumulated USD 2.2 million and BYR 264.5 million.

In addition, we carried out 166 factoring transactions totaling USD 30.9 million thereby scoring a 60-percent increase over the year before, and 122 factoring deals amounting to BYR 463.6 million.

Among the main users of this trade finance instrument were the Bank's largest corporate customers such as Minsk Tractor Works, Horizont Plant, Lukoil-Belorussia and Belshina.

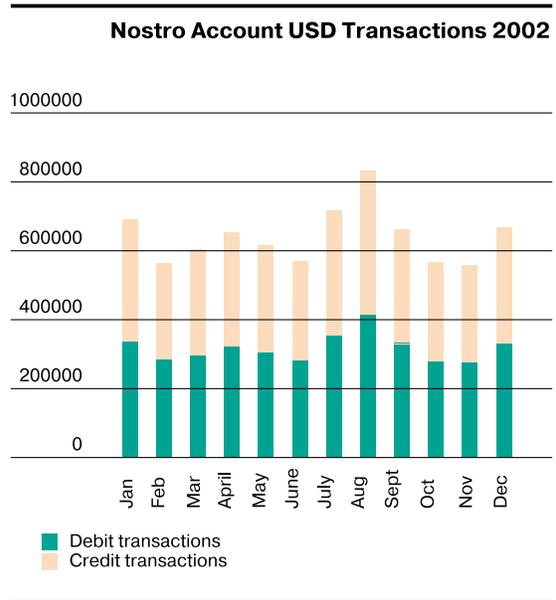
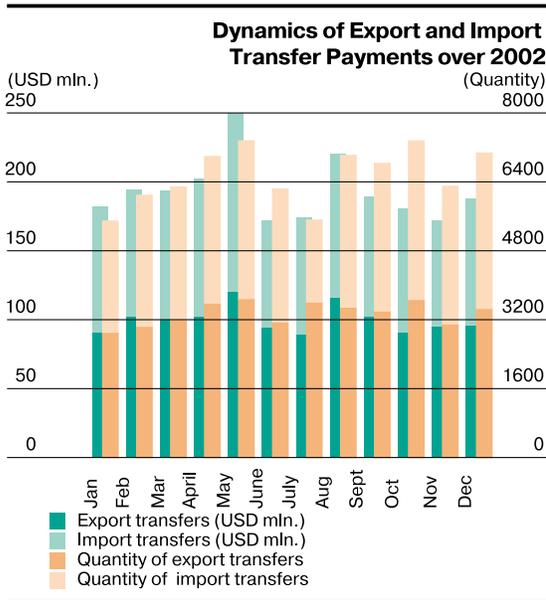
Over the accounting period we effected 34 827 import transfers in the amount of USD 993.5 mil-



lion and 36 335 export transfers in the amount of USD 1075.6 million.

NOSTRO account incoming payments amounted to USD 3 841.9 million while outgoing payments amounted to USD 3 857.5 million. As regards

VOSTRO accounts incoming and outgoing payments amounted to USD 1 921.5 million and USD 1 926.5 million respectively, those in BYR totaled BYR 1 293 143.8 million on the credit side and BYR 1 296 877.3 on the debit side.



As at January 2003, Belvnesheconombank maintained correspondent banking relations with 535 banks from 80 countries across the world actively using NOSTRO accounts held with such banks of international caliber as Deutsche Bank AG, Dresdner Bank AG and Commerzbank AG (Frankfurt/Main), Deutsche Bank Trust Americas (New York), Bank Austria Creditanstalt (Vienna), Banca Intesa SpA (Milan), Sberbank of Russia, Alfa-Bank, International Moscow Bank, and Vneshtorgbank (Moscow) to mention just a few.

In establishing correspondent banking relations, we are primarily guided by the principles of stringent risk exposure controls and cost-efficiency in order to be better-positioned to meet customer needs, speed up settlements and reduce costs.

We actively used credit lines extended by our counterparties in carrying out uncovered documentary and interbank forex transactions, especially those set up by Raiffeisen Zentralbank Österreich AG (Vienna), Donau Bank AG (Vienna), Dresdner Bank AG (Frankfurt/Main),

Commerzbank AG (Frankfurt/Main), Bayerische Hypo- und Vereinsbank AG (Munich), and Banca Intesa SpA (Milan).

In line with the strategy of promoting economic integration between Belarus and Russia, we paid special attention to expanding cooperation and business contacts with Russian banks maintaining correspondent banking relations with over 120 banks across Russia. Among Belvnesheconombank's main correspondents are Sberbank of Russia, Vnesheconombank-USSR, Vneshtorgbank, International Moscow Bank, Alfa-Bank, MDM-Bank and Natzionalny Kosmichesky Bank.

Belvnesheconombank continues to discharge the functions of a clearing center for Russian banks in the their BYR settlements. Sberbank of Russia, Vnesheconombank-USSR, Vneshtorgbank, MDM-Bank, Interprombank, Rosbank and Alfa-Bank (all of Moscow) granted Belvnesheconombank credit lines to carry out documentary and interbank forex transactions.

Pursuing our strategy of attaining maximum customer satisfaction, we continued to expand the available product mix by introducing new services to the Belarusian corporate market. Special emphasis was laid on promoting proactive business relationship with our longtime customers. Over the past year, the Management Board initiated a number of measures that resulted in substantial service improvements for such customer segments as diplomatic missions, self-employed entrepreneurs and companies engaged in international trade. Expansion and consolidation of the customer base was mainly carried out by recruiting businesses of all types of ownership.

The increase in the number of customers holding current accounts with Belvnesheconombank, both corporate entities and self-employed entrepreneurs, from 7800 to 8377 was achieved owing to the customer policy improvements. The number of corporate customer current accounts reached 11040 in 2002 comprising 3347 accounts in foreign currency and 7693 accounts in the national currency. Among the customers that chose to bank with us in the past year are Krasnoselskstroyaterialy, Bobruysk Machine-Building Factory, International Institute of Labor and Social Relations, Traditsiya Trading House, and the Factory of Decorative Ceramics-Ivenets, to mention just a few.

Belvnesheconombank's corporate customers include the country's largest companies with a strong international profile as well as dynamically developing wholly and partly foreign-owned companies, including:

- Belarusian Steel Works
- Khimvolokno-Mogilev
- Oil Refinery, Mozyr
- Minsk Automobile Plant
- Naftan
- Belaeronavigatsiya
- Lukoil-Belorussia
- Beltekhexport
- Horizont Plant
- Minsk Tractor Works
- Belavtostrada
- BelAZ
- Spartak
- McDonald's Restaurants
- Khimvolokno-Grodno
- Belavia National Airlines
- Coca-Cola Beverages Belorussia
- Milavitsa
- Pinskdrv

Our concept of corporate customer service is based on providing our customers with a package of bespoke products and solutions to enable them to make the most of the technological, commercial and financial capabilities of the Bank in accomplishing their business objectives. In order to attain this goal, our major customers are offered a personal manager service established by the Bank to provide them with customer-specific counseling in order to streamline their financial and information flows, reduce document turnover, attain cost and time savings, and make better use of their capital.

In 2002, Belynesheconombank continued to actively trade in the domestic and international money markets offering its customers the following services on most advantageous conditions:

- mandatory sale of foreign currency at the Belarusian Currency and Stock Exchange trading sessions;
- agency forex trading at the Belarusian Currency and Stock Exchange;
- OTC agency forex trading;
- spot and value-today conversion transactions;
- provision of information updates on international forex market fluctuations and counseling on forex risk hedging vehicles; and
- handling customer orders for round-the-clock conversion transactions.

The past year witnessed a substantial slide in the re-financing rate of the National Bank of Belarus from 66% in January 2002 down to 38% as at January 1, 2003. There was also a tangible decline of interest rates in international interbank markets prompted by the lowering of the discount rate by the US Federal Reserve System. As a consequence, we were able to reduce our foreign currency borrowing costs 1.7 times.

Compared with 2001, our day-weighted interbank lendings grew 1.5 times while our borrowings (inclusive of corporate deposits) increased 1.4 times.

During the year under review, we offered our customers flexible terms and conditions tailored in

each case to the individual customer's financial and business performance to encourage placement of temporary idle BYR and foreign currency funds in deposits:

- time deposits from seven days to any period of time of the customer's choice earning interest at base or negotiated fixed rates and offering an option of partial debiting and crediting the deposit account;
- call deposits; and
- call deposits earning interest at a floating rate tied to the balance in the account.

Corporate customer foreign currency deposits constituted an important source of debt capital. Despite interest rate downward trends in the international forex markets, our customer forex deposits continued to earn interest at our 2001 interest rates. As regards corporate BYR deposits, the interest rate was maintained on a par with the re-financing rate as from time to time readjusted by the National Bank of Belarus.

The volume of customer forex trading transactions scored a 1.4-fold increase in 2002 while the volume of interbank forex market transactions doubled over this period.

As compared with the previous year the growth in interbank forex market trading generated a 2.5-fold increase in income from conversion transactions.

### **Government Bond Transactions**

The Bank's investment in government bonds purchased on the primary market in the accounting year was twice as high as the minimum mandatory quotas of government treasury and debt bond purchases prescribed by the National Bank for primary investors in 2002. The amount of bonds purchased for customers on the primary market totaled BYR 787.6 million. The total trading turnover on the secondary market scored a 2.8-fold increase in 2002. In the accounting year, a total of 795 REPO deals and 392 purchase-and-sale deals were effected (compared to 552 and 282 respectively in 2001).

The Bank's profit gains from trading in government bonds on the primary and secondary markets scored a 3.7-fold increase against the year before, attaining a 49.4 percent p.a. rate of return.

During the year under review, the Bank concluded 5 comprehensive service agency agreements on government bond market transactions, each of a 5-year duration. At present, 22 customers of the Bank are registered with the Stock Exchange.

Pursuant to an agreement concluded with Clearstream Banking Luxembourg, the Bank effected Eurobond transactions on international stock markets.

### **Transactions with Promissory Notes**

Trading in National Bank USD-denominated promissory notes accounted for the bulk of our securities transactions. Trading in promissory notes of commercial banks, Beltransgaz and other corporate entities was also fairly brisk throughout the accounting year. With a view to securing high liquidity and ensuring maximum customer satisfaction, the Head Office discounted promissory notes issued by the Bank's branches, with 234 such transactions effected in 2002. In addition to promissory notes trading, we also effected break-up fee operations that helped our customers ease their loan repayment burden. In the accounting year we also carried out exchange transactions with promissory notes.

### **Safe Custody Services**

As at 1 January 2003, the Bank's safe custody unit managed 67 DEPO accounts of customers trading in government bonds, including 24 accounts of the Bank's branches and 43 customer accounts. A total of 11 safe custody service agreements were concluded with issuers in the accounting year. At present, the Bank's safe custody unit manages 37 registers of joint-stock companies, including Belvnesheconombank's register (compared to 27 at the start of 2002). A total of 49012 DEPO accounts are run by the Bank, with 48906 of them being of accumulative status due in large measure to the incorporation of Belcoopbank. Registering services are also dispensed by the regional branches in Grodno, Gomel and Vitebsk, and the branches in Borisov, Bobruisk and Rechitsa.

Provision of a comprehensive retail banking service both in national and foreign currency remained to be an important segment of Belvnesheconombank's business operations. In developing our retail banking business we were as always committed to an on-going expansion of the mix of private customer products and services proceeding from the assessment of the market situation and a differentiated approach to various retail instruments with a view to maximizing income and attaining adequate positioning of the Bank in the retail banking market.

The key retail services and products offered by Belvnesheconombank were:

1. Opening and maintaining current accounts including those for plastic card holders;
2. International money remittances including those via Western Union;
3. Acceptance of foreign cash and payment instruments for collection;
4. Taking private customer term deposits in national and foreign currency;
5. Retail lending including credit cards;
6. Handling utility and other payments; and
7. Conversion operations, etc.

**Deposit Operations**

In line with the 2001-2010 Belvnesheconombank Institutional Building Program, one of the key business thrusts in the year under review was to build up the Bank's resource base, especially by attracting private customer funds to deposits.

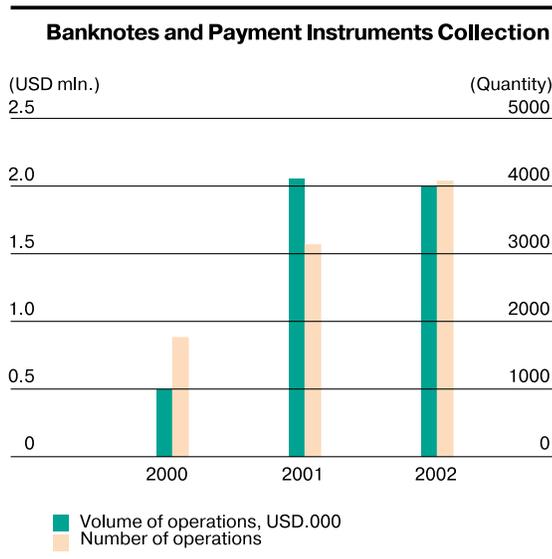
Private customer funds in BYR deposit accounts totaled BYR 11.9 billion as at January 1, 2003, scoring a 2.5-fold increase against the year before.

Foreign currency deposits went up 1.5 times during the year under review to reach USD 33.4 million at year-end. 7.1 thousand BYR and 11.8 thousand foreign currency deposit agreements were signed. Besides, 14.8 thousand BYR and 11.9 thousand foreign currency settlement accounts were opened.

The balance in the BYR current and deposit accounts grew 2.5 times in 2002, that in foreign currency increased 1.5 times, reaching a total of BYR 12.8 billion and USD 37.0 million respectively.

**Money Remittances**

In the past year, we were consistently expanding our instant money transfer business in association



with Western Union Inc. USD 21.7 million worth of money transfers were handled by the Bank in 2002 scoring an increase of 15% over the year before. In large measure that was achieved owing to the extension of the network of Western Union outlets by incorporating affiliates of our subagent banks.

Currently there are 80 outlets handling Western Union money transfers, with 32 of them run by Belvnesheconombank. Over 2002, another 19 outlets handling Western Union instant money transfers were made operational.

Private customers continued to make an extensive use of money transfers via our correspondent accounts with foreign banks. The amount of funds so remitted grew 11.4% in 2002, while the number of remittances increased 2.7%.

**Banknote and Payment Instrument Collection Service**

The number of collection service operations rose 1.4 times in 2002.

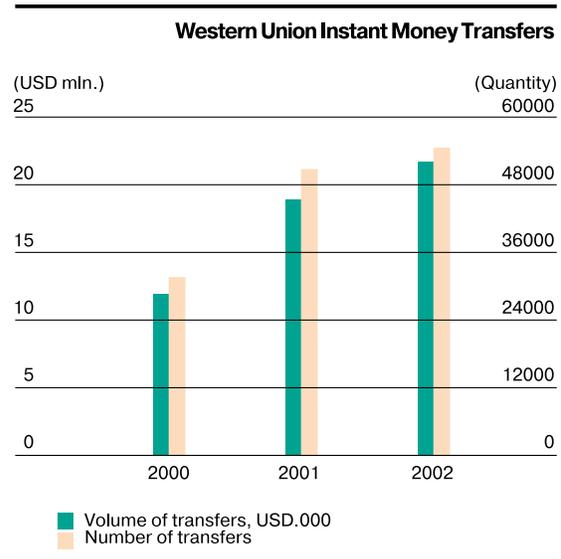
**Bankcard Business Development**

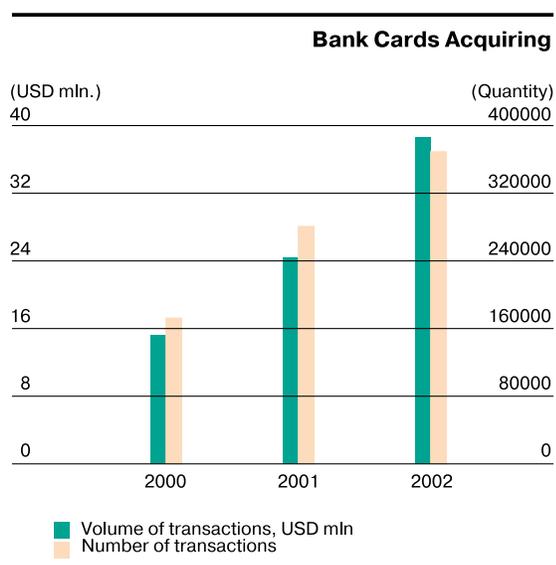
In the year under review, Belvnesheconombank pioneered issuance of credit cards in Belarus. Based on a standard open-end consumer credit mechanism, credit cards deliver such lending advantages as longer loan terms, arrangement simplicity and pre-agreed limits thereby giving customers an opportunity to substantially

increase their purchasing power. In view of its promising potential, the credit card business is planned to be further expanded.

We continued to build up the system of non-cash payments using bank plastic cards that enable their holders to have a round-the-clock access to their bank accounts. Currently there are over 15 000 Belvnesheconombank-issued bankcards in circulation. In 2002, another 56 POS terminals and 8 ATMs were installed including the ones in Gomel and Mogilev. The volume of card-based transactions increased by over 60% and exceeded USD 40 million in the equivalent.

In the accounting year, a new service was made available to holders of cards issued by Belvnesheconombank and its agent banks enabling them to pay utility bills via the Bank's ATMs.





the Belarusian Ruble stability and reduction of physical cash in circulation constituted an important aspect of the Bank's operations.

The analysis of the 2002 cash movement in the Bank showed that the amount of cash takings over the year reached BYR 452.9 billion while cash advances made by the Bank's teller offices totaled BYR 300.6 million, i.e. the relevant 2001 indicators were surpassed by 146% and 160% respectively.

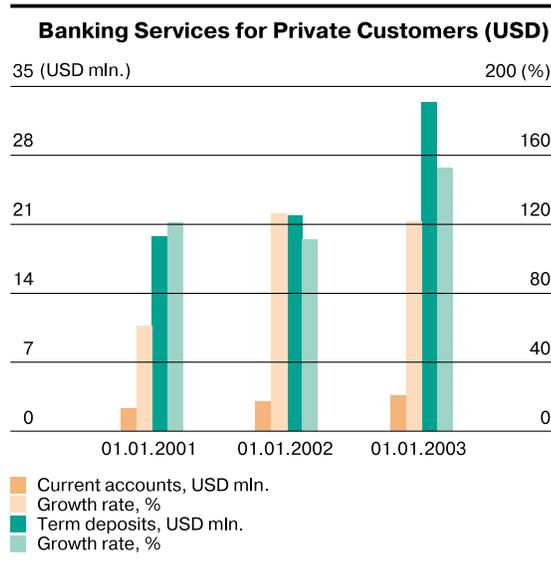
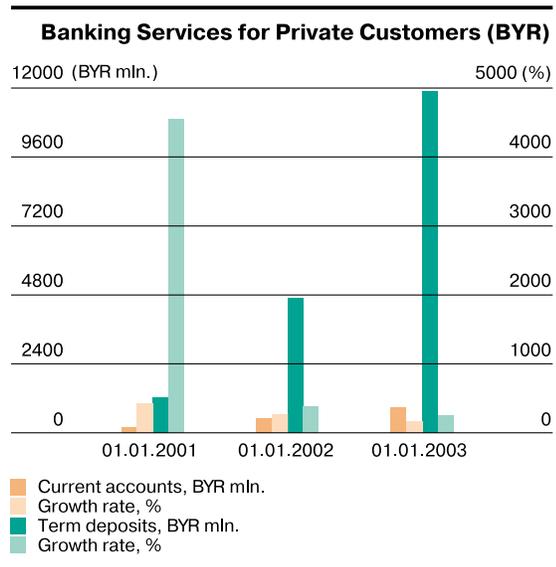
The Bank's customers had the entire spectrum of cash services in 15 currencies dispensed to them by our teller offices.

### Cash Service

Failsafe provision of cash for the relevant units within the Bank to deliver an uninterrupted cash service to the Bank's customers as well as a rational and efficient use of cash resources to ensure

### Bureaux d'Echange

Foreign cash conversion services were dispensed by a nation-wide network of 110 bureaux d'echange and specialized cash desks (with 49 of them located in Minsk).



Our bureaux d'échange (four of which operate on a 24 hours basis) deal in more than fifteen currencies and carry out the following transactions:

- Purchase and sale of foreign cash;
- Purchase and sale of travelers' checks;
- Cash advancing to bank card holders; and
- Conversion, change, exchange and collection of foreign cash.

The past year saw a continued upward trend in the purchase and sale of foreign cash by private individuals with their year-end volumes reaching the equivalent of USD 46 million and USD 91 mil-

lion respectively. Sales of travelers' checks increased by 13%. The volume of armored transportation of BYR cash rose by 55% while that of foreign currency recorded a 3-fold increase.

#### **Armored Transportation Service**

At present there are ten armored transportation units within the Bank Group offering cash receipts collecting and courier transportation services to various customer entities. They also run interbank armored courier and customer payroll delivery services.

In implementing new informational technologies and upgrading its EDP capabilities, Belvnesheconombank is pursuing a goal of putting in place a single infomedia to maximize efficiency in the management of its financial resources, expand the package of banking products and bring new services to the market.

The core of the Bank's EDP system comprising now the Head Office and 22 branches across the country is constituted by the EQUATION software product designed by Misys Int. Banking Systems and an IBM AS/400 multiuser mainframe.

In the course of 2002, seven more branches were integrated into the Bank's EQUATION System. Among other developments of note that took place in the year under review were the development and installation of an interface between the Suspend/Due/Overdue Payments workstation (handling contingent accounts) and the EQUATION System resulting in reduced user workload, installation of Suspend/Due/Overdue Payments workstations at four branches, and development and installation of an interface between the Customer-Bank e-banking and EQUATION Systems to automatically process payment transactions on an intraday basis.

The following innovations were introduced within the EQUATION System, namely, the development and installation of a module for the registration of international payments, implementation of a software application to computerize the Bank's transactions in the domestic debt set-off system,

upgrading of the module for opening and maintaining customer accounts, installation of a software product to exercise cost-benefit monitoring of customer services, and the development of a software product to monitor risks related to asset-side transactions with counterparty banks.

The Teller System was modified to enlarge the scope of banking services and enable our customers to settle their bills invoiced by Mobile TeleSystems, a major mobile phone operator, pay electricity and other utility bills, make other regular payments, and also handle EUR transactions. The Teller System - Version 2.0 was certified to be entered in the State Register of Cash Adding Machines and Computer Systems following a successful completion of tests by Belarusian Standardization and Certification Institute in December 2002.

Belvnesheconombank made an active use of S.W.I.F.T. capabilities channeling the bulk of its payment traffic via this international telecommunications system, including customer and inter-bank payments, confirmation of international forex market deposits and trades, as well as stock-trading transactions. In 2002, over 250 thousand payments were S.W.I.F.T.-transacted.

Special emphasis was placed on expanding the spectrum of services and products delivered via our e-mail service and updating the relevant software support to ensure compliance with the e-document regulations of the National Bank and the relevant law of the Republic of Belarus. As at

1 January 2003, Belvnesheconombank's E-mail service embraced 681 subscribers including all of the Bank's branches (28 subscribers), 7 correspondent banks, 306 enterprises, and 340 intra-bank subscribers. During the accounting year our Customer-Bank E-Banking Service was used by 313 corporate customers to operate their accounts and receive information updates from the Bank.

As a Principal Member of MasterCard and VISA Associations, Belvnesheconombank operates its own processing center and handles all products of these payment systems using ATMs and POS terminals. The Bank issues its own Eurocard/MasterCard Mass, EuroCard/MasterCard Business, Cirrus/Maestro, VISA Classic and VISA Electron cards, and renders processing services to other banks, namely, TekhnoBank and Mezhtorgbank.

In 2002, the Bank's processing center was upgraded to become a dependable state-of-the-art server-cluster-based high-performance computer room.

As at 1 January 2003, the Bank's own card-service network comprised 16 ATMs, 120 POS terminals and 12 fully fitted-out Teller System workstations. The Bank also developed and installed software products to bring to the private customer market such products and services as credit cards, ATM-accessed demand deposits, and ATM-based utility and other payment options.

The Teller System software capabilities were further enhanced, including a card-account crediting

option, to give bankcard holders such services as access to their card-account balance and cash advancement. Besides, as a result of further software upgrades made in the year under review the System, now operating at nine branches, is enabled to provide bank card services in any of the Bank's service outlets.

The IT technical base continued to be consistently developed and upgraded. The installation of up-to-date high-performance active network facilities significantly increased the capacity and reliability of the Bank's local and corporate computer networks. The ATM-network was upgraded to considerably speed up bankcard transactions. A total of 87 PCs was purchased and upgraded in 2002.

Major objectives to be accomplished by the Bank in 2003 are to ensure an uninterrupted operation of its IT systems and a more efficient use of their capabilities. In order to achieve these purposes, it is planned:

- to make further progress in computerizing financial statements and reduce the amount of manually-handled payments;
- to maintain and enhance the IT-networks by developing and incorporating administrative and diagnostic systems and upgrading communications equipment;
- to develop the Bank's computer facilities and enhance their security features;
- to upgrade the communication lines and bring down operating costs;

- to incorporate the Bank's branches into a single computer network;
- to create a single electronic payment documents turnover system employing law-compliant digital signature options;
- to create an electronic archive;
- to enlarge the spectrum of banking products by employing the most advanced computer science innovations;

- to maintain and upgrade the PC fleet; and
- to maintain and enhance UPS systems.

In line with our plans to build up our bank card business in 2003, it is envisaged to start a chip-implementation project and expand our cash advance network by installing a further five ATMs, 45 POS terminals and 15 cardholder-activated terminals.

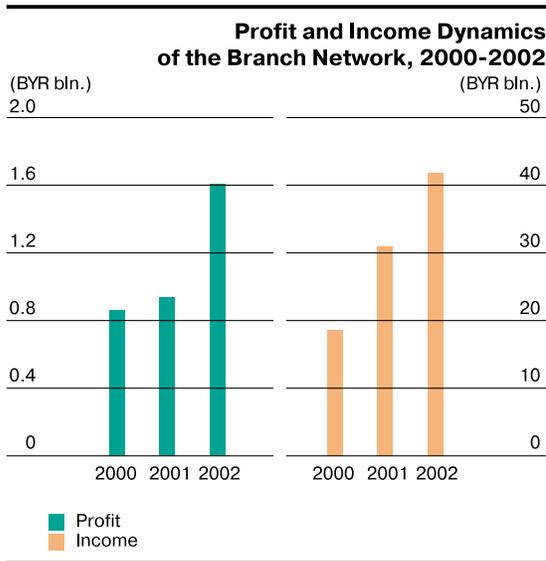
## BRANCH NETWORK

In 2002, Belvnesheconombank Group comprised 28 branches including 5 branches in regional capitals, 6 branches in Minsk and 17 branches in other urban areas across Belarus.

Over the year, the Bank's branches concentrated their efforts on building up their earnings strength, consistently raising cost-efficiency of operations, improving the quality of customer services, meeting customer needs in modern banking products, and reducing operating costs. A special emphasis was placed on improving the composition and quality of assets, building up sales, expanding the range of services for corporate customers and private individuals, and rationalizing the territorial positioning of the retail network established by the branches.

Further impetus was given to documentary transactions, P-note-based lending, forex and securities market operations, bank cards, Western Union instant money transfer services, and processing of private customer utility and other payments. In order to extend their territorial reach and bring banking services closer to prospective corporate and individual customers, the branches intensified establishment of banking outlets and centers in target locations. As of 1 January 2003, there were 9 cash and settlement centers and 8 banking outlets established in the areas of their operations.

Over the year, the income of the branches rose 1.4 times, accounting for 48% of the Bank's entire income. Faster growth of income over expenses yielded a balance sheet profit of BYR 1.6 billion, thereby the previous year level was surpassed 1.7 times. The share of the branch network in



Belvnesheconombank's consolidated profit was as high as 49%. In the meantime, their cost-efficiency ratio at the close of the accounting period rose to 4.0% against 3.1% in 2001.

The resources of the branch network increased by 66% with their hard currency share going up by 40%. BYR-denominated private customer deposits grew 2.4 times while foreign currency deposits scored a 1.8-fold increase over the year to reach BYR 9.2 billion and USD 19.1 million respectively. The volume of credit facilities extended to corporate customers rose 1.7 times. The proportion of the loans outstanding of branches in the Bank's

total loan portfolio rose from 44% to 52% for foreign currency-denominated loans, exceeding 94% for BYR-denominated loans.

As at January 1, 2003 the branches managed 85% of all customer current accounts and 31% of funds placed therein.

The best performing branches in terms of efficiency and profit in 2002 were the regional branches in Gomel, Mogilev, Grodno and Vitebsk, branches in Mozyr, Bobruisk and Borisov, and branches 2 and 5 in Minsk.

Considerable business expansion, improved financial standing and consistently growing reputation of Belvnesheconombank's branch network have confirmed the validity of the Bank's strategy of building its regional presence. In line with this strategy, the Bank retained and strengthened partnership relations with major industries and municipalities and won full faith and credit of its private customers. As a result the Bank was able to attain a greater efficiency and flexibility in deploying its financial resources for the implementation of regional and nation-wide development programs.

As at 1 January 2003, Belvnesheconombank's equity investments totaled BYR 2966.5 million and covered 17 legal entities, including BYR 2772.5 million invested in its subsidiary and associated companies.

To date, the Bank's subsidiaries include Belvneshstrakh Insurance Company (wholly owned by the Bank), Belinterfinance Closed Joint Stock Company (51-percent equity stake), Vneshstroyinvest and Vnesheconomstroy Commercial Open Joint Stock Ventures (51- percent equity stake each), Interbranch Institute for Independent Expertise of Investment Projects Closed Joint Stock Company (52-percent equity stake). The Bank's associated company is Interecon-N Closed Joint Stock Company with a 10-percent equity stake held by the Bank.

In 2002, the Bank's subsidiary and associated companies actively pursued the lines of business as defined by their charters and institutional strategies.

Since 1994 Belvneshstrakh Insurance Company has been one of the leaders on the insurance market of the Republic of Belarus. During 2002, the Company successfully pursued its business in the field of insuring financial and property interests of its clients and their foreign trade transactions. The company's earnings from the sale of its products and services in 2002 amounted to BYR 5397.1 million yielding a balance sheet profit of BYR 931.6 million.

In 2002, Interbranch Institute for Independent Expertise of Investment Projects Closed Joint Stock Company continued to operate on the

domestic market of counseling services. The Institute completed the development and appraisal of 8 business plans pursuant to agreements concluded with enterprises of various industries and forms of ownership, with the implementation of a further 6 agreements still under way. Among the implemented projects is a sporting and fitness facility in Minsk. Although the 2002 revenues amounted to BYR 53.3 million, the Institute posted no year-end profit due to delayed customer payments for services rendered.

Belinterfinance Closed Joint Venture Stock Company is primarily engaged in financial leasing, wholesaling, crop farming services, repairs of machinery used in agriculture and forestry and other commercial operations. In 2002, its sales amounted to BYR 1811.9 million, while balance sheet profit was recorded at BYR 312.1 million. The profitability of this major domestic leasing company was considerably reduced due to the failure of agricultural enterprises to ensure a timely discharge of their payment obligations for the grain harvesters supplied under 1997-1999 leasing arrangements.

As a result of its business operations in 2002, Interecon-N Closed Joint Stock Company, the Bank's associated company, earned BYR 868.4 million in revenues and attained a book profit of BYR 478.5 million. Interecon-N is currently engaged in a market construction project in Bobruisk, which, once completed, will enhance the company's financial standing, spur its business development, ensure a prompt loan repayment to the Bank and

open up good opportunities for implementing other investment projects in partnership with Belvnesheconombank.

In 2002, jointly with Russian companies the Bank set up Vneshstroyinvest and Vnesheconomstroy Commercial Joint Stock Companies to implement a sporting and fitness facility construction project

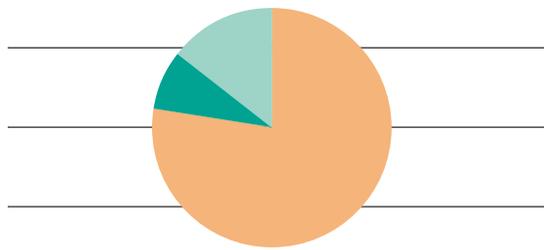
within the Minsk Indoor Football Arena Complex. In addition to accelerating the commissioning of this project that will offer a broad range of sporting, fitness and health services to the general public, the establishment of these companies will make it possible to embark on other high-return investment projects that require substantial capital infusions.

## HUMAN RESOURCES DEVELOPMENT

As at January 2003, our staff comprised 2264 employees, including 901 working in the Head Office (including 547 female staff (61%) and 354 male staff (39%)) and 1363 - in the branch divisions and representative offices.

Aware of the fact that staff professionalism is a key factor that in large measure determines the quality of customer service and, ultimately, the efficient operation of the Bank, in 2002 we focused our efforts on creating adequate education oppor-

**Staff Education Profile**



university-level education - 77.5 %  
college-level education - 8.1 %  
general secondary education - 14.4 %

**Staff Age Profile**



16 - 24 - 13.1 %  
25 - 29 - 27.4 %  
30 - 39 - 27.3 %  
40 - 49 - 22.3 %  
50 and over - 9.9 %

tunities for Head Office and branch employees to pursue professional training and raise their career-promotion prospects by attending:

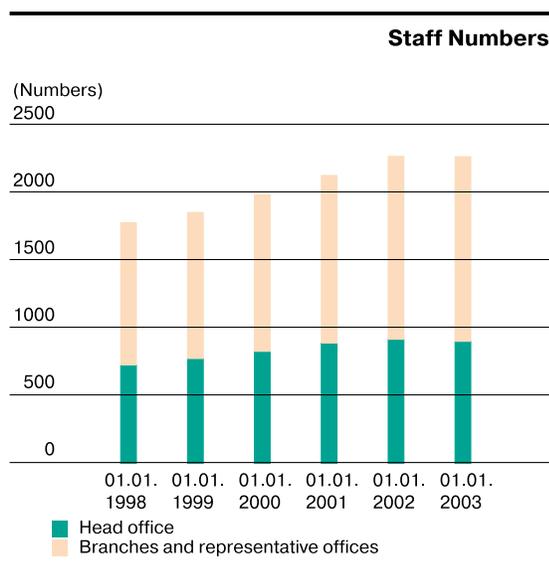
- university and college-level education programs;
- in-house training programs, seminars and workshops;
- training programs, conferences and seminars held outside the Bank.

Over the year, the Bank held 22 workshops for regional branch staff attended by 707 employees. A number of workshops were provided for the Bank's customers. Special emphasis was placed on designing customized training programs for staff members appointed to managerial positions, and branch officers. In 2002, 13 staff members completed such programs in various divisions of the Head Office, 98 attended workshops and skills-upgrading programs outside the Bank, 17 of them

took part in programs run abroad. Over 100 staff attended foreign language proficiency courses.

In 2002, 102 staff members pursued part-time studies in various educational establishments raising their professional competence and acquiring new specializations (35 of them earning their second university degree). 30 staff members completed their education in the year under review.

Various divisions of the Bank also provided on-the-job training to 82 undergraduate students from Belarusian State Economic University, Belarusian State University, Belarusian State University of Computer Science and Electronics, Academy of Management under the President of the Republic of Belarus and several other institutions.



## COMMUNITY SUPPORT AND SPONSORSHIP

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Sponsoring various charity programs and cultural events continued to be a matter of precedence for the Bank in the accounting year.

Considerable funds were donated for the construction of new premises of the National Library of the Republic of Belarus as well as the restoration and reconstruction of the Nesvizh Castle and Park Complex. As before, we continued to provide financial aid to medical institutions and organizations, with major beneficiaries being the Republican Hospital for War Veterans, the Belarusian Association of Surgeons, the Republican Dental Clinic, Minsk Dental Clinic No. 5, Minsk Hospital No.3, the Alexandrov Research Institute for Cancer and Medical Radiology and the Clinical Center of the Research Institute of Radiology and Endocrinology.

In the accounting year, the Bank made financial donations to charity funds, voluntary associations and professional unions. Among the donation recipients were the Belarusian Children's Fund, the Belarusian Athletic Union, the International Humanitarian Fund, the Belarusian Foundation for Benevolence and Health, the Belarusian Society of Disabled Citizens, the Belarusian Society of War Veterans, the Belarusian Branch of the Marshal Zhukov Foundation, the Belarusian Red Cross, the Minsk-City Foundation for Assistance to Handicapped Children, and the Belarusian Nature Protection Society.

The Bank also dispensed patronage to Specialized Boarding School No.10 for socially disadvantaged children to cover its needs in purchasing household necessities, teaching aids and textbooks, carrying out maintenance and repair works, and buying children's New Year gifts. A donation of children's footwear was made to Stankov Boarding School.

In line with its long-standing tradition, the Bank provided support to the agricultural sector, financing the purchase of an MTZ 82.1.57 tractor to award one of the top-performing farming cooperatives at the Dazhynki-2002 National Harvesting Fair and Folk Festival. Financial aid was also extended to the Frunze Collective Farm, Kalinkovichi District, Gomel Region, for the purchase of herbicides and other crop-protection chemicals.

In 2002, the Bank and its branches donated a total of BYR 150 million for community support and sponsorship purposes.

## FINANCIAL REPORT

**BALANCE SHEET OF OPEN JOINT STOCK COMPANY  
BELVNESHECONOMBANK, AS AT JANUARY 1, 2003\***

	'000 BYR
<b>ASSETS</b>	
Cash	13,212,754.5
Precious metals	0.0
Due from the National Bank of the Republic of Belarus	23,390,309.7
Government securities	
Securities of the National Bank of the Republic of Belarus	43,264,902.4
Other trading securities (purchased for sale)	8,182,716.2
Due from other banks and loans and advances to other banks	117,345,230.5
Loans and advances to customers	234,361,475.0
Investment securities	2,966,469.7
Fixed assets and goodwill	23,125,808.7
Other assets	16,991,063.9
<b>Total assets</b>	<b>482,840,730.6</b>
<b>LIABILITIES</b>	
Precious metals	0.0
Due to the National Bank of the Republic of Belarus	4,786,601.8
Loans from the Government	0.0
Due to other banks	143,546,903.5
Due to customers	248,672,190.0
Securities issued by the Bank	8,481,266.1
Other liabilities	20,725,994.6
<b>Total liabilities</b>	<b>426,212,956.0</b>
<b>CAPITAL</b>	
Authorized capital	17,141,488.8
Issuance differences	0.0
Reserve fund	3,897,949.1
Accumulated profit	2,692,538.6
Balance sheet items revaluation fund	32,895,798.1
Total capital	56,627,774.6
<b>Total liabilities and capital</b>	<b>482,840,730.6</b>

**OFF-BALANCE SHEET LIABILITIES**

Guarantees issued	28,061,554.0
Guarantees received	110,260,234.6
Liabilities of the Bank under individual financing arrangements	31,061,381.2
Liabilities to the Bank under individual financing arrangements	16,932,164.9
Off-balance debt	54,581,791.5
Securities due to be delivered by the Bank	23,352,700.0
Securities due to be delivered to the Bank	3,822,100.0
Liabilities arising from forex and precious metal sale	4,733,287.7
Liabilities arising from forex and precious metal purchase	4,691,949.7
Options purchased	0.0
Options sold	0.0
Assets pledged by the Bank	46,224.0
Assets pledged to the Bank	634,388,840.0
Liabilities arising from loans granted	74,502,257.0
Customer securities	960,000.0
Securities portfolio	26,601,898.7
Other funds, valuables and instruments	1,289,278,508.9
<b>Total off-balance sheet liabilities</b>	<b>2,303,274,892.2</b>

Georgy Egorov  
Chairman of the Board

Zinaida Kushnerova  
Chief Accountant

Ilya Krayko  
General Director  
Deloitte&Touche LLC

\* according to the requirements of the National Bank of the Republic of Belarus

PROFIT AND LOSS STATEMENT OF OPEN JOINT STOCK COMPANY  
 BELVNESHECONOMBANK, AS AT JANUARY 1, 2003\*

	'000 BYR
Interest income	43,049,473.7
Interest expense	26,479,894.3
Net interest income	16,569,579.4
Fee and commission income	20,635,919.4
Fee and commission expense	1,408,933.7
Net fee and commission expense	19,226,985.7
Net foreign exchange gain	5,009,560.8
Net gain from trading securities (purchased for sale)	1,646,104.3
Net gain from investment securities	-
Dividend income	4,544.4
Other operating income	2,352,566.6
<b>Total income</b>	<b>9,012,776.1</b>
Net provision for bad debts	7,810,963.2
Total income less net provision for bad debts	36,998,378.0
Total administrative expense	26,374,716.6
Depreciation	1,439,187.5
Other operating expense	4,082,905.8
Total expense	31,896,809.9
Income tax	1,620,961.2
<b>Profit (loss) for the accounting year</b>	<b>3,480,606.9</b>

Georgy Egorov  
 Chairman of the Board

Zinaida Kushnerova  
 Chief Accountant

Ilya Krayko  
 General Director  
 Deloitte&Touche LLC

\* according to the requirements of the National Bank of the Republic of Belarus  
 '000 BYR

STATEMENT OF CAPITAL FLOW FOR THE YEAR ENDED ...('000 BYR)\*

	'000 BYR					
	Authorized capital	Issuance differences	Reserve fund	Unappropriated profit	Balance sheet items revaluation fund	Total capital
Opening balance	17,157,913.0		1,983,615.2	1,126,265.6	22,630,519.3	42,898,313.1
Change in capital for the year:						
Profit (loss shown with minus sign)	•	•	•	3,480,606.9		3,480,606.9
Profit appropriated for reserves		•	1,914,333.9	-1,914,333.9		0.0
Profit appropriated for dividends	•	•	•		•	0.0
Shareholders' investment to authorized capital			•	•	•	0.0
Revaluation of balance sheet items	•	•	•	•	10,265,278.8	10,265,278.8
Redistribution between capital items						•
Other change in capital	-16,424.2					-16,424.2
<b>Total change in capital for the year</b>	<b>-16,424.2</b>	<b>0.0</b>	<b>1,914,333.9</b>	<b>1,566,273.0</b>	<b>10,265,278.8</b>	<b>13,729,461.5</b>
Closing balance	17,141,488.8	0.0	3,897,949.1	2,692,538.6	32,895,798.1	56,627,774.6

• own shares bought back

Georgy Egorov  
Chairman of the Board

Zinaida Kushnerova  
Chief Accountant

Ilya Krayko  
General Director  
Deloitte&Touche LLC

\* according to the requirements of the National Bank of the Republic of Belarus

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2002

## STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT

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The management is responsible for the preparation of consolidated financial statements for each financial year. These must give a true and fair view of the state of affairs of Belvnesheconombank (the Bank) as of the end of each financial year and of the profit or loss and cash flow for that year. Management is required to prepare the financial statements on a going concern basis unless it is not appropriate.

In preparing the financial statements on pages 42 through 68 for the year ended 31 December 2002, management has used appropriate accounting policies, consistently applied and supported them by reasonable and prudent judgements and estimates, and ensured that all accounting standards which they consider significant have been followed.

Management has the responsibility for ensuring that the Bank keeps accounting records which disclose with reasonable accuracy the financial position of the Bank and which enable them to ensure that the financial statements comply, in all material respects, with International Accounting Statements. Management also has a general responsibility for taking such steps as are reasonably necessary to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

**On behalf of the management**



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**Chairman of the Board**  
**Georgy Egorov**



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**Chief Accountant**  
**Zinaida Kushnerova**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Council of the Open JointStock Company "Belvnesheconombank":

We have audited the accompanying balance sheet of the Open JointStock Company "Belvnesheconombank" ("the Bank") as at 31 December 2002 and the related profit and loss account, statement of cash flows and statement of shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Notes 2 and 12, the financial statements of the Bank do not include the assets, liabilities and the financial results of the companies "Belvneshestrah" and "Vneshstrojinvest" that are controlled by the Bank, which is a departure from the requirements of IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries". Based on the financial statements of the subsidiaries prepared in accordance with Belorussian accounting regulations their net assets as at 31 December 2002, revenue and net profit for the year then ended were equal to BYR 732,299 thousand, BYR 3,327,760 thousand and BYR 7,610 thousand, respectively. The accounting rules and regulations in Belarus differ significantly from IAS and these companies do not prepare financial statements complying with IAS. Therefore, we were not able to determine the effect of non-consolidation of these subsidiaries on the financial statements of the Bank.

As discussed in Note 2, the financial statements do not disclose additions, disposals and other movements of fixed tangible and intangible assets for the year ended 31 December 2002. In our opinion, disclosure of this information is required by International Accounting Standards.

In our opinion, except for the effect of any adjustments, as might have been determined necessary based on the facts described in the preceding paragraphs, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2002, and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

As described in Note 2, the assets, liabilities and shareholders equity as of 31 December 2001 and the corresponding figures for 2001 in the profit and loss account have been restated for the effect of hyperinflation in accordance with IAS 29.

Without additionally qualifying our opinion, we draw attention to Note 12 describing an uncertainty in respect of maturity of the promissory note in the amount of USD 10,400,000.

Also, without additionally qualifying our opinion, we draw attention to Note 22, describing the fact that at present there is a considerable degree of uncertainty in the Republic of Belarus.

*Deloitte & Touche*

15 March 2003

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2002**  
(in thousands of Belarussian Roubles)

	Notes	2002	2001 (as restated)
Interest income	3, 23	46,471,752	67,442,842
Interest expense	3	<u>(30,768,166)</u>	<u>(45,001,091)</u>
NET INTEREST INCOME BEFORE PROVISIONS FOR POSSIBLE LOAN LOSSES		15,703,586	22,441,751
Provision for possible loan losses	4, 23	<u>(10,212,185)</u>	<u>(22,588,515)</u>
NET INTEREST INCOME / (EXPENSE)		<u>5,491,401</u>	<u>(146,764)</u>
Net gain on securities		3,275,525	4,138,618
Net gain on foreign exchange operations		13,931,966	14,460,653
Fee and commission income		24,062,155	25,431,296
Fee and commission expense		(1,635,819)	(2,132,881)
Dividend income		5,276	3,024
Other income		<u>2,020,271</u>	<u>1,875,017</u>
NET NON-INTEREST INCOME		<u>41,659,374</u>	<u>43,775,727</u>
OPERATING INCOME		47,150,775	43,628,963
OPERATING EXPENSES	5	<u>(45,890,749)</u>	<u>(45,770,209)</u>
PROFIT / (LOSS) BEFORE OTHER PROVISIONS AND LOSSES, INCOME TAX AND LOSS ON NET MONETARY POSITION		1,260,026	(2,141,246)
Provisions for possible losses on other transactions	4	<u>(1,732,012)</u>	<u>(2,089,853)</u>
LOSS BEFORE INCOME TAX AND LOSS ON NET MONETARY POSITION		<u>(471,986)</u>	<u>(4,231,099)</u>
Income tax expense	6	<u>(1,881,991)</u>	<u>(6,672,164)</u>
LOSS BEFORE LOSS ON NET MONETARY POSITION		(2,353,977)	(10,903,263)
Loss on net monetary position		<u>(5,652,364)</u>	<u>(3,733,826)</u>
NET LOSS		<u>(8,006,341)</u>	<u>(14,637,089)</u>

On behalf of the Board

Chairman

Chief Accountant

The notes on pages 47 to 68 form an integral part of these financial statements. The Independent Auditors' Report is on page 41.

All amounts in these financial statements including comparative figures were adjusted for the effect of hyperinflation and are expressed in the measuring unit current at 31 December 2002.

	Notes	2002	2001 (as restated)
<b>ASSETS:</b>			
Cash and balances with the National Bank of the Republic of Belarus	7	41,679,066	61,629,644
Loans and advances to banks, less allowance for possible loan losses	8	109,347,286	165,257,585
Trading securities	9	4,533,048	9,376,141
Loans and advances to customers, less allowance for possible loan losses	10, 23	219,893,194	173,204,394
Securities purchased under agreement to resell	11	21,081,316	453,164
Investment securities, less allowance for impairment	12	33,857,512	50,713,015
Fixed and intangible assets, less accumulated depreciation	13	47,554,486	58,399,098
Other assets	14	<u>7,121,835</u>	<u>9,114,492</u>
<b>TOTAL ASSETS</b>		<u><b>485,067,743</b></u>	<u><b>528,147,533</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits from banks	15	148,492,884	138,451,977
Customer accounts	16	255,712,388	298,210,404
Government loans		21,703	357,227
Securities sold under agreement to repurchase	17	3,352,336	4,299,936
Debt securities issued		8,630,453	8,782,837
Other liabilities	18	<u>3,538,954</u>	<u>4,703,362</u>
<b>Total liabilities</b>		<u><b>419,748,718</b></u>	<u><b>454,805,743</b></u>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	20	141,497,911	141,497,911
Treasury stock		(16,451)	(27)
Accumulated deficit		<u>(76,162,435)</u>	<u>(68,156,094)</u>
<b>Total shareholders' equity</b>		<u><b>65,319,025</b></u>	<u><b>73,341,790</b></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><b>485,067,743</b></u>	<u><b>528,147,533</b></u>

On behalf of the Board

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Chairman

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Chief Accountant

The notes on pages 47 to 68 form an integral part of these financial statements. The Independent Auditors' Report is on page 41.

All amounts in these financial statements including comparative figures were adjusted for the effect of hyperinflation and are expressed in the measuring unit current at 31 December 2002.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2002  
(in thousands of Belarussian Roubles)

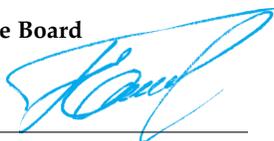
	2002	2001 (as restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Loss before income taxes and loss on net monetary position	(471,986)	(4,231,099)
Adjustments for:		
Provision for possible loan losses	10,212,185	22,588,515
Provision / (recovery of provision) for impairment of securities (Recovery of provision) / provision for possible losses on other transactions	2,257,970	(540,828)
Depreciation charge on fixed and intangible assets	(525,958)	2,630,681
	<u>11,080,616</u>	<u>13,432,147</u>
Operating profit before changes in operating assets and liabilities	<u>22,552,827</u>	<u>33,879,416</u>
Changes in operating assets and liabilities (Increase) / decrease in operating assets:		
Minimum reserve deposit with the National Bank of the Republic of Belarus	2,836,014	(4,136,363)
Loans and advances to banks	70,510,903	(14,438,240)
Loans and advances to customers	(46,537,988)	(9,450,353)
Securities purchased under agreements to resell	(20,628,152)	(453,164)
Other assets	2,484,370	(5,951,271)
Increase / (decrease) in operating liabilities:		
Deposits from banks	10,040,907	7,063,845
Customer accounts	(42,498,016)	17,144,960
Securities sold under agreements to repurchase	(947,600)	4,299,936
Other liabilities	353,506	(409,301)
(Outflow) / inflow from operating activities before income taxes	<u>(1,833,229)</u>	<u>27,549,465</u>
Income tax paid	<u>(2,333,268)</u>	<u>(6,283,428)</u>
Net cash (outflow) / inflow from operating activities	<u>(4,166,497)</u>	<u>21,266,037</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed and intangible assets	(5,073,853)	(1,704,027)
Proceeds on sale of fixed and intangible assets	4,837,849	-
Redemption of investment securities	<u>15,477,685</u>	<u>5,966,009</u>
Net cash inflow from investing activities	<u>15,241,681</u>	<u>4,261,982</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase of share capital	-	11,597,543
Purchase of treasury shares	(16,424)	(27)
Decrease in loans from Government	(335,524)	(2,314,949)
Net (redemption) / issue of debt securities	<u>(152,384)</u>	<u>4,155,043</u>
Net cash (outflow) / inflow from financing activities	<u>(504,332)</u>	<u>13,437,610</u>

	Notes	2002	2001 (as restated)
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,570,852	38,965,629
INFLATION EFFECT ON CASH (INCLUDING CHANGE IN VALUATION ALLOWANCES)		(17,142,025)	(20,743,457)
CASH AND CASH EQUIVALENTS, beginning of year	7	<u>140,686,900</u>	<u>122,464,728</u>
CASH AND CASH EQUIVALENTS, end of year	7	<u>134,115,727</u>	<u>140,686,900</u>

Interest received by the Bank in cash during the 12 months ended 31 December 2002 and 31 December 2001 amounted to BYR 47,122,617 thousand and BYR 59,605,755 thousand, respectively.

Interest paid by the Bank in cash during the 12 months ended 31 December 2002 and 31 December 2001 amounted to BYR 30,693,258 thousand and BYR 43,984,851 thousand, respectively.

On behalf of the Board



Chairman



Chief Accountant

The notes on pages 47 to 68 form an integral part of these financial statements. The Independent Auditors' Report is on page 41.

All amounts in these financial statements including comparative figures were adjusted for the effect of hyperinflation and are expressed in the measuring unit current at 31 December 2002.

STATEMENT OF SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2002

(in thousands of Belarussian Roubles)

	Notes	Share capital	Treasury stock	Accumulated deficit	Fixed assets' revaluation reserve	Total shareholders' equity
Balance as at 31 December 2000 (as per previous financial statements, adjusted for inflation rate for 2001 and 2002)		19,774,297	-	(15,388,238)	38,905,685	43,291,744
Effect of restatement for hyperinflation in accordance with IAS 29		<u>110,126,071</u>	<u>-</u>	<u>(38,130,767)</u>	<u>(38,905,685)</u>	<u>33,089,619</u>
Balance as at 31 December 2000 (restated)		129,900,368	-	(53,519,005)	-	76,381,363
Net loss after loss on net monetary position	-	-	-	(14,637,089)	-	(14,637,089)
Share capital increase		11,597,543	-	-	-	11,597,543
Purchase of treasury shares		<u>-</u>	<u>(27)</u>	<u>-</u>	<u>-</u>	<u>(27)</u>
Balance as at 31 December 2001 (as restated)	20	141,497,911	(27)	(68,156,094)	-	73,341,790
Net loss after loss on net monetary position		-	-	(8,006,341)	-	(8,006,341)
Purchase of treasury shares		<u>-</u>	<u>(16,424)</u>	<u>-</u>	<u>-</u>	<u>(16,424)</u>
Balance as at 31 December 2002	20	<u>141,497,911</u>	<u>(16,451)</u>	<u>(76,162,435)</u>	<u>-</u>	<u>65,319,025</u>

On behalf of the Board

Chairman

Chief Accountant

The notes on pages 47 to 68 form an integral part of these financial statements. The Independent Auditors' Report is on page 41.

All amounts in these financial statements including comparative figures were adjusted for the effect of hyperinflation and are expressed in the measuring unit current at 31 December 2002.

## 1. ORGANISATION

Belarus Open Joint-Stock Company – “Belvnesheconombank” (“The Bank”) was established on 12 December 1991 as a result of the separation of the Belarus branch of the Bank for Foreign Economic Affairs of the USSR. The Bank is incorporated in the Republic of Belarus as a joint stock commercial bank, in which the shareholders have limited liability.

The Bank’s registered office is located on 32 Myasnikova Street, Minsk, Belarus.

The Bank provides the wide range of banking services to its clients, which are mainly local enterprises. The Bank’s primary areas of operations include granting loans to exporting industries, issuing and processing export and import letters of credits, transferring payments and exchanging foreign currencies upon demand of its customers and for currency trading purposes. The Bank has general and special banking licenses, which allow it to maintain accounts and attract demand and term deposits from private and corporate customers, carry out transactions with precious metals and stones.

The Bank has a network of 28 branches within the territory of the Republic of Belarus, as well as representative offices in Moscow (Russia) and Warsaw (Poland).

The number of employees of the Bank at 31 December 2002 and 2001 was 2,062 and 2,051, respectively.

These financial statements were authorized for issue by the Management Board on 15 March 2003. The Management Board has the authority to change the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Accounting basis* - These financial statements of the Bank have been prepared on the accruals basis of accounting, under the historical cost convention and restated in terms of the measuring unit (i.e. Belarussian Rouble) current as at 31 December 2002.

The Bank maintains its accounting records in accordance with Belarussian law. These financial statements have been prepared from the Belarussian statutory accounting records and have been adjusted to conform to International Accounting Standards (“IAS”).

The Republic of Belarus is currently experiencing high levels of inflation. Under International Accounting Standard No. 29, “Financial Reporting in Hyperinflationary Economies”, the accompanying financial statements have been adjusted to reflect the effects of the diminution of the purchasing power of the Belarussian Rouble. The rates of inflation were as follows:

Year	%
2002	35%
2001	46%
2000	108%
1999	251%

All amounts in these financial statements, including corresponding figures, are stated in the measuring unit (i.e. Belarussian Rouble) current as at 31 December 2002. Monetary assets and liabilities at 31 December 2002 are not restated because they are already expressed in the monetary unit current at 31 December 2002. Non-monetary assets and liabilities and shareholders’ equity including share capital for the year ended 31 December 2002 and all amounts for 2001 are restated by applying a relevant conversion factor. The effect of inflation on the Bank’s net monetary position is reflected in the profit and loss account as a loss on net monetary position.

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

**Reporting currency** - The currency used in these financial statements is the Belarussian Rouble ("BYR").

**Investments in other subsidiaries and associated companies** - Investments in corporate shares where the Bank owns more than 50% of share capital are accounted for at cost of acquisition adjusted for hyperinflation. The Management believes that consolidation of such companies is not practical, as these companies do not prepare their financial statements in accordance with IAS. Management periodically assesses the carrying values of such investments and provides valuation allowances, if required.

**Cash and cash equivalents** - Cash and cash equivalents include cash, unrestricted balances with the National Bank of the Republic of Belarus, advances to banks, public debt securities of the trading portfolio, which may be converted to cash within a short period of time. For the purposes of determining cash flows, the minimum reserve deposit required by the National Bank of the Republic of Belarus is not included as cash equivalents due to restrictions on its availability.

**Trading securities** - Trading securities represent debt securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost, which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. The fair value adjustment on trading securities is recognized in the profit and loss account for the period.

The Bank records regular way transactions with financial instruments on the settlement date basis.

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

**Originated loans** - Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in loan facilities. Originated loans are carried at amortized cost, less any provision for possible loan losses.

**Purchased loans and receivables** - Loans and receivables acquired from another lender subsequent to the original date are classified as loans and advances.

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

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

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

**Write off of loans** - Loans are written off against the allowance for possible loan losses in the case of uncollectibility of loans and advances, including the repossession of collateral. Write off is made after all the required legal procedures are performed and the amount of loss is determined. Recovery of loans previously written off is credited to income.

**Non-accrual loans** - Loans are placed on non-accrual status when interest is in arrears of payment for more than 30 days.

**Repurchase agreements** - The Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. 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. Assets sold by the Bank under repos are retained in the financial statements and a consideration received is recorded in liabilities as collateralized deposit received. A reverse repo is an agreement to purchase assets and resell them at a future date with accrued interest received. Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit, which is collateralized by securities or other assets.

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

**Fixed and intangible assets** - Movements in revalued cost and accumulated depreciation of fixed and intangible assets for 2002 were not presented in these financial statements as it would be technically difficult to revalue these movements for the purposes of IAS 29.

**Depreciation** - Depreciation of fixed and intangible assets is accumulated to write off assets over their useful economic lives and is calculated on a straight-line basis at the following annual prescribed rates:

Buildings and constructions	1 - 1.5%
Computer equipment	10 - 15%
Office furniture & equipment	8 - 25%
Other assets	8 - 12%

After the recognition of an impairment loss (if any) the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

**Foreign currency transactions** - Assets and liabilities denominated in foreign currencies are translated at the appropriate spot rates of exchange ruling at the balance sheet date. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

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

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

	31 December 2002	31 December 2001
BYR/USD	1,920.00	1,580.00
BYR/EUR	1,993.63	1,391.51
BYR/RUR	60.41	52.31

**Income tax** - Taxes on income are computed in accordance with the laws of the Republic of Belarus. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the liability method at the statutory tax rate. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized. Deferred income tax assets and liabilities are offset when:

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

**Reclassification and restatement** - The comparative figures for 2001 were reclassified and restated to comply with the financial statements presentation requirements as at 31 December 2002 and in accordance with IAS 29.

In 2002 the Bank applied IAS 29. Hence, comparative figures for 2001 were restated as required by this accounting standard. The effect of restatement of comparative figures is presented below:

As at 31 December 2001	Amounts as per prior year financial statements (restated for inflation rate for 2002)	The effect of the restatement	Restated
Share capital	(23,127,156)	(118,370,755)	(141,497,911)
Accumulated deficit as at the beginning of 2001	10,531,228	42,987,777	53,519,005
Net loss / (profit) for 2001	(471,125)	15,108,214	14,637,089
Fixed assets revaluation reserve	(31,020,903)	31,020,903	-
Fixed assets	37,086,778	21,312,320	58,399,098
Investment securities (shares, non-consolidated subsidiary companies)	282,959	7,941,541	8,224,500

### 3. NET INTEREST INCOME BEFORE PROVISION FOR POSSIBLE LOAN LOSSES

	2002	2001 (as restated)
<b>Interest income</b>		
Interest on loans and advances to customers	39,737,351	49,061,221
Interest on loans and advances to banks	6,545,382	18,290,637
Interest on investment securities	188,820	74,255
Other interest income	199	16,729
	<u>46,471,752</u>	<u>67,442,842</u>
<b>Interest expenses</b>		
Interest on customer accounts	(21,590,253)	(25,062,707)
Interest on deposits from banks	(8,503,725)	(18,917,303)
Interest on debt securities issued	(674,034)	(1,021,081)
Other interest expense	(154)	-
	<u>(30,768,166)</u>	<u>(45,001,091)</u>
<b>Net interest income before provisions for possible loan losses</b>	<u>15,703,586</u>	<u>22,441,751</u>

### 4. PROVISIONS FOR POSSIBLE LOSSES

	2002	2001 (as restated)
<b>Provisions for possible loan losses</b>		
Provision for loans and advances to banks	(1,731,933)	(1,428,875)
Provision for loans and advances to customers	(8,480,252)	(21,159,640)
	<u>(10,212,185)</u>	<u>(22,588,515)</u>
<b>Provisions for possible losses on other transactions</b>		
(Provision) / recovery of provision for impairment of securities	(2,257,970)	540,828
Recovery of provision / (provision) for other assets	194,700	(192,274)
Recovery of provision / (provision) for off-balance sheet liabilities	331,258	(2,438,407)
	<u>(1,732,012)</u>	<u>(2,089,853)</u>

## 5. OPERATING EXPENSES

	2002	2001 (as restated)
Staff costs	19,112,951	16,646,371
Depreciation	11,080,616	13,432,147
Taxes, other than income tax	4,262,242	5,125,086
Operating lease expenses	3,185,620	3,802,875
Transportation expenses	1,665,277	1,870,152
Security	1,216,689	1,096,251
Professional services fees	1,269,108	779,783
Other banking expenses	1,226,182	922,119
Other expenses	2,872,064	2,095,425
	<u>45,890,749</u>	<u>45,770,209</u>

## 6. INCOME TAX EXPENSE

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in BYR and in accordance with the Belarussian statutory tax regulations, which may differ from International Accounting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of some exchange losses and other expenses and the tax-free regime under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2002 and 2001 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets. Temporary differences as at 31 December 2002 and 2001 were as follows:

	2002	2001 (as restated)
Deferred assets:		
Loans to banks and customers	19,588,889	24,694,676
Deferred expenses	647,322	1,514,732
Other liabilities, provisions for guarantees	1,218,048	2,017,349
Investment securities	1,483,118	3,090,763
Other	125,501	864,930
Total deferred assets	<u>23,062,878</u>	<u>32,182,450</u>
Deferred liabilities:		
Loans to banks and customers, accrued interest income	(5,659,099)	(7,115,367)
Trading securities	(4,069)	-
Investment securities	(561,070)	-
Total deferred liabilities	<u>(6,224,238)</u>	<u>(7,115,367)</u>
Net deferred assets	<u>16,838,640</u>	<u>25,067,083</u>
Deferred tax assets at the statutory rate (30%)	5,051,592	7,520,125
Less: valuation allowance	<u>(5,051,592)</u>	<u>(7,520,125)</u>
Net deferred tax asset	<u>-</u>	<u>-</u>

The relationships between tax expenses and accounting profit for the year ended 31 December 2002 and 2001 are explained as follows:

	2002	2001 (as restated)
Loss before income taxes	<u>(6,124,350)</u>	<u>(7,964,925)</u>
Tax saving at the statutory tax rate of 30%	(1,837,305)	(2,389,478)
Tax effect of permanent differences	6,187,829	6,867,931
Change in valuation allowance	<u>(2,468,533)</u>	<u>2,193,711</u>
Tax expense	<u>1,881,991</u>	<u>6,672,164</u>
Current tax expense	<u>1,881,991</u>	<u>6,672,164</u>

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

The balances of BYR 41,679,066 thousand and BYR 61,629,644 thousand as at 31 December 2002 and 2001, respectively, include BYR 23,361,694 thousand and BYR 26,197,708 thousand, respectively, which represent the minimum reserve deposits required by the National Bank of the Republic of Belarus. The Bank is required to maintain the reserve balance at the National Bank of the Republic of Belarus at all times.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	2002	2001 (as restated)
Cash and balances with the National Bank of the Republic of Belarus	41,679,066	61,629,644
Deposits with banks	111,265,307	95,878,823
Trading securities	4,533,048	9,376,141
Less minimum reserve deposit with the National Bank of the Republic of Belarus	<u>(23,361,694)</u>	<u>(26,197,708)</u>
Cash and cash equivalents	<u>134,115,727</u>	<u>140,686,900</u>

#### 8. LOANS AND ADVANCES TO BANKS, LESS ALLOWANCE FOR POSSIBLE LOAN LOSSES

	2002	2001 (as restated)
Loans to banks	74,624,404	69,873,403
Advances to banks	<u>36,690,903</u>	<u>96,566,323</u>
	111,315,307	166,439,726
Less allowance for possible loan losses	<u>(1,968,021)</u>	<u>(1,182,141)</u>
	<u>109,347,286</u>	<u>165,257,585</u>

	2002	2001 (as restated)
Allowance for possible loan losses:		
At beginning of the period	1,182,141	-
Provision for the period	1,731,933	1,428,875
Gain on net monetary position	<u>(946,053)</u>	<u>(246,734)</u>
At end of the period	<u><b>1,968,021</b></u>	<u><b>1,182,141</b></u>

As at 31 December 2002 and 2001 the Bank had three exposures totaling BYR 63,859,223 thousand and seven exposures of BYR 77,543,556 thousand, respectively, which individually exceeded 10% of the Bank's equity.

#### 9. TRADING SECURITIES

	2002	2001 (as restated)
Short-term government bonds ("GKO's")	4,533,048	5,041,415
Municipal bonds	<u>-</u>	<u>4,334,726</u>
	<u><b>4,533,048</b></u>	<u><b>9,376,141</b></u>

As at 31 December 2002 and 2001 included in trading securities was accrued interest income on debt securities amounting to BYR 537,487 thousand and BYR 24,883 thousand, respectively.

As at 31 December 2002 and 2001 included in trading securities were short-term government bonds sold under repurchase agreements with other banks amounting to BYR 3,331,575 thousand and BYR 4,299,936 thousand, respectively.

#### 10. LOANS AND ADVANCES TO CUSTOMERS, LESS ALLOWANCE FOR POSSIBLE LOAN LOSSES

	2002	2001 (as restated)
Originated loans	242,792,791	215,043,093
Net investment in finance leases	<u>2,732,222</u>	<u>496,081</u>
	245,525,013	215,539,174
Less allowance for possible loan losses	<u>(25,631,819)</u>	<u>(42,334,780)</u>
	<u><b>219,893,194</b></u>	<u><b>173,204,394</b></u>

	2002	2001 (as restated)
Loans collateralized by equipment and inventories	120,656,946	60,479,715
Loans collateralized by real estate	77,076,066	123,432,041
Loans collateralized by guarantees of state bodies and local authorities	34,413,474	14,753,826
Loans collateralized by lien over receivables	12,077,253	13,706,748
Loans collateralized by other types of collateral	<u>1,301,274</u>	<u>3,166,844</u>
	245,525,013	215,539,174
Less allowance for possible loan losses	<u>(25,631,819)</u>	<u>(42,334,780)</u>
	<u><b>219,893,194</b></u>	<u><b>173,204,394</b></u>

	2002	2001 (as restated)
Allowance for possible loan losses		
At beginning of the period	42,334,780	36,275,069
Provision for the period	8,480,252	21,159,640
Write-offs for the period	(16,552,149)	-
Gain on net monetary position	<u>(8,631,064)</u>	<u>(15,099,929)</u>
At end of the year	<b><u>25,631,819</u></b>	<b><u>42,334,780</u></b>

As at 31 December 2002 and 2001 the Bank had eight exposures totaling BYR 115,327,930 thousand and four exposures of BYR 41,462,023 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2002 and 2001 included in loans and advances to clients are non-performing loans amounting to BYR 30,711,285 thousand and BYR 45,865,956 thousand, respectively, on which interest was not accrued.

	2002	2001 (as restated)
<b>Analysis by sector</b>		
Manufacturing	182,114,364	138,876,295
Wholesale and retailing	14,985,099	12,346,706
Agriculture	4,618,256	5,206,937
Factoring	8,874,144	4,892,171
Finance leases	2,732,222	496,081
Construction	1,509,767	2,271,832
Individuals	297,626	183,324
Other	<u>30,393,535</u>	<u>51,265,828</u>
	245,525,013	215,539,174
Less allowance for possible loan losses	<u>(25,631,819)</u>	<u>(42,334,780)</u>
	<b><u>219,893,194</u></b>	<b><u>173,204,394</u></b>

The components of net investment in finance leases as of 31 December 2002 are as follows:

Total minimum lease and maintenance payments	3,985,848
Less: executory costs	<u>-</u>
Net minimum lease payments	3,985,848
Less: unearned finance income	<u>(1,253,626)</u>
Net investment in finance leases	<b><u>2,732,222</u></b>

The value of future minimum lease payments due from customers under finance leases as at 31 December 2002 is as follows:

Not later than one year	2,219,785
Later than one year not later than five years	1,751,063
Later than five years	<u>15,000</u>
	<b><u>3,985,848</u></b>

## 11. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As at 31 December 2002 and 2001 the Bank had purchased short-term government bonds ("GKO's") amounting to BYR 21,081,316 thousand and BYR 453,164 thousand, respectively under agreements to resell them within a month from the respective reporting dates.

## 12. INVESTMENT SECURITIES LESS ALLOWANCE FOR IMPAIRMENT

	2002	2001 (as restated)
Securities available-for-sale	31,153,995	46,684,607
Investments in non-consolidated subsidiaries	4,503,012	4,450,085
	<u>35,657,007</u>	<u>51,134,692</u>
Less allowance for impairment of investments	(1,799,495)	(421,677)
	<u>33,857,512</u>	<u>50,713,015</u>
Securities available-for-sale		

	2002	2001 (as restated)
Shares	2,300,635	3,774,415
Promissory notes of the Ministry of Finance of the Republic of Belarus	20,776,786	33,795,281
Promissory notes of the National Bank of the Republic of Belarus	1,026,084	5,957,333
Bonds of foreign governments	1,803,378	3,125,766
Promissory notes of other banks	335,658	31,812
Promissory notes of companies	4,911,454	-
	<u>31,153,995</u>	<u>46,684,607</u>

### Investments in unconsolidated subsidiaries

Investments in unconsolidated subsidiaries	<u>4,503,012</u>	<u>4,450,085</u>
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### Allowance for impairment of investments

At beginning of the period	421,677	1,505,208
Provision/(recovery of provision) for the period	2,257,970	(540,828)
Gain on net monetary position	(880,152)	(542,703)
At end of the year	<u>1,799,495</u>	<u>421,677</u>

In September 1991, Vnesheconombank of USSR froze all customer accounts. During 1996 an agreement was reached between the governments of the Russian Federation and of the Republic of Belarus that the Ministry of Finance of the Republic of Belarus would assume all the obligations of Vnesheconombank of USSR relating to Belarussian customers. During 1998 the governments of Russian Federation and the Republic of Belarus have signed an agreement about mutual settlements. As a result of this agreement, the debt in the amount of USD 10,400,000 has been converted to a Ministry of Finance of the Republic of Belarus non-interest bearing promissory note.

As of 31 December 2002 this promissory note is due on demand, however, the Ministry of Finance are negotiating with the Bank in respect of its prolongation.

	% in equity	2002	2001 (as restated)
<b>Investment in non-consolidated subsidiary and associated companies</b>			
- USP "Belvneshstrah"	100%	4,439,902	4,439,902
- ZAO "Mezhotraslevoj institut nezavisimoy expertisy investitsionnyh proektov"	52%	10,183	10,183
- KSO "Vneshstrojinvest" OOO	51%	22,051	-
- KSO "Vnesheconomstroj" OOO	51%	30,876	-
		<u>4,503,012</u>	<u>4,450,085</u>
Less allowance for impairment of investments		<u>(1,799,495)</u>	<u>-</u>
		<u><b>2,703,517</b></u>	<u><b>4,450,085</b></u>

As at 31 December 2002 the Bank had an interest in the share capital of USP "Belvneshstrah" (registered in the Republic of Belarus) of 100% with the par value of BYR 4,439,902 thousand. The Company provides foreign trade insurance services on the territory of the Republic of Belarus.

As at 31 December 2002 the Bank held 52% of the share capital of ZAO "Mezhotraslevoj institut nezavisimoy expertisy investitsionnyh proektov" (Republic of Belarus) with the par value of BYR 10,183 thousand. The Company provides investment projects assessment services in the Republic of Belarus.

As at 31 December 2002 the Bank had an interest in the share capital of KSO "Vneshstrojinvest" OOO (Republic of Belarus) of 51% with the par value of BYR 22,051 thousand. The Company renders finance lease services and carries out transactions with real estate.

As at 31 December 2002 the Bank had an interest in the share capital of KSO "Vnesheconomstroj" OOO (Republic of Belarus) of 51% with the par value of BYR 30,876 thousand. The Company constructs buildings and carries out transactions with real estate.

The Management believes, consolidation of these companies' financial statements is not practical as they do not prepare financial statements in accordance with IAS.

### 13. FIXED AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION

	Buildings	Computer equipment	Office furniture	Other assets	Total
<b>At revalued cost</b>					
At 31 December 2001	12,048,349	96,790,576	9,002,807	68,222,212	186,063,944
At 31 December 2002	<u>12,137,211</u>	<u>98,041,348</u>	<u>8,938,757</u>	<u>66,228,295</u>	<u>185,345,611</u>
<b>Accumulated depreciation</b>					
At 31 December 2001	980,680	83,834,861	6,329,939	36,519,366	127,664,846
At 31 December 2002	<u>1,129,933</u>	<u>89,021,776</u>	<u>6,945,069</u>	<u>40,694,347</u>	<u>137,791,125</u>
<b>Net book value</b>					
At 31 December 2002	<u><b>11,007,278</b></u>	<u><b>9,019,572</b></u>	<u><b>1,993,688</b></u>	<u><b>25,533,948</b></u>	<u><b>47,554,486</b></u>
<b>Net book value</b>					
At 31 December 2001	<u><b>11,067,669</b></u>	<u><b>12,955,715</b></u>	<u><b>2,672,868</b></u>	<u><b>31,702,846</b></u>	<u><b>58,399,098</b></u>

#### 14. OTHER ASSETS

	2002	2001 (as restated)
Prepaid expenses and receivables on other transactions	1,243,615	91,893
Other debtors	1,038,192	314,537
Settlements with the budget	930,786	547,320
Materials and low value items	710,703	718,650
Settlements on capital investments	435,316	2,289,821
Accrued rent receivable	641	977,637
Other	2,780,207	4,683,972
	<u>7,139,460</u>	<u>9,623,830</u>
Less allowance for possible losses on other assets	<u>(17,625)</u>	<u>(509,338)</u>
	<b><u>7,121,835</u></b>	<b><u>9,114,492</u></b>
	2002	2001 (as restated)
<b>Allowance for possible losses on other assets</b>		
At beginning of the period	509,338	382,397
(Recovery)/provision for the period	(194,700)	192,274
Gain on net monetary position and forex gain	<u>(297,013)</u>	<u>(65,333)</u>
At end of the period	<b><u>17,625</u></b>	<b><u>509,338</u></b>

#### 15. DEPOSITS FROM BANKS

	2002	2001 (as restated)
Demand deposits	24,661,973	38,716,334
Time deposits	<u>123,830,911</u>	<u>99,735,643</u>
	<b><u>148,492,884</u></b>	<b><u>138,451,977</u></b>

#### 16. CUSTOMER ACCOUNTS

	2002	2001 (as restated)
Repayable on demand	133,734,521	191,554,241
Time deposits	<u>121,977,867</u>	<u>106,656,163</u>
	<b><u>255,712,388</u></b>	<b><u>298,210,404</u></b>

#### 17. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

As at 31 December 2002 and 2001 securities sold under repurchase agreements are commitments of the Bank to repurchase GKO's for specified amounts. The amounts of BYR 3,352,336 thousand and BYR 4,299,936 thousand, respectively, represent principal amounts of these borrowing facilities plus the amortized difference between the initial amounts and the maturity amounts. The securities sold under the said agreements are included in trading portfolio of the Bank at fair value, which approximates the amounts disclosed above. The maturity of the agreements is within one month of the respective reporting dates.

## 18. OTHER LIABILITIES

	2002	2001 (as restated)
Allowance for possible losses on off-balance sheet transactions	1,218,048	2,017,349
Taxes payable, other than income tax	344,796	1,090,052
Other	1,976,110	1,595,961
	<u>3,538,954</u>	<u>4,703,362</u>

	2002	2001 (as restated)
<b>Allowance for possible losses on guarantees</b>		
At beginning of the period	2,017,349	335,566
(Recovery) / provision for the period	(331,258)	2,438,407
Gain on net monetary position	(468,043)	(756,624)
	<u>1,218,048</u>	<u>2,017,349</u>

## 19. MANAGED ASSETS AND MANAGED LIABILITIES

	2002	2001 (as restated)
Managed assets		
Managed loans granted to non-OECD residents	475,366,439	469,929,189
	<u>475,366,439</u>	<u>469,929,189</u>

### Managed liabilities

AKA Ausfuhrkredit (Germany)	247,194,646	223,321,835
Czech Export Bank, A.S. (Czech Republic)	133,037,853	133,960,946
Kreditanstalt fur Wiederaufbau (Germany)	1,020,971	2,881,607
Bayerische Landesbank Girozentrale (Germany)	47,545,974	59,641,963
Bayerische Hypo und Vereinsbank (Germany)	3,509,472	-
Bank Austria Creditanstalt AG (Austria)	42,507,048	44,755,761
Creditanstalt AG (Austria)	-	695,841
Interbanka, A.S. (Czech Republic)	-	4,671,236
Kuwait Fund for Arab Economic Development (Kuwait)	550,475	-
	<u>475,366,439</u>	<u>469,929,189</u>

The Bank acts as a dispensing agent for these funds in the form of loans to Belarussian companies. The Bank charges commission for the management of the funds. The Bank does not carry credit, interest rate, currency or any other risks in respect of the funds.

## 20. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2002 and 2001 the authorized, issued and fully paid share capital comprised of 171,579,330 ordinary shares with a par value of BYR 100 each (at historical cost).

The authorized, issued and fully paid share capital adjusted for the effect of hyperinflation as at 31 December 2002 and 2001 amounted to BYR 141,497,911 thousand.

All ordinary shares are ranked equally and carry one vote.

## 21. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

As at 31 December 2002 and 2001, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	31 December 2002		31 December 2001	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
<b>Contingent liabilities and credit commitments</b>				
Guarantees and similar commitments	28,061,554	28,061,554	69,100,625	69,100,625
Letters of credit and other transactions related to contingent obligations	22,880,844	22,880,844	18,517,452	18,517,452
Commitments on credits and unused credit lines	8,180,537	2,045,134	11,432,620	2,858,155

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

## 22. CONTINGENCIES

*Capital commitments* - The Bank had no material commitments for capital expenditures outstanding as at 31 December 2002.

*Operating environment* - The Bank's principal business activities are within the Republic of Belarus.

There is a considerable degree of uncertainty in the Republic of Belarus surrounding the continued success of domestic economic policy. Laws and regulations affecting the business environment in the Republic of Belarus are subject to rapid changes.

Furthermore, the recoverability of the Bank's loans and advances to domestic commercial banks, as well as their financial situations and consequently their ability to repay the loans, largely depends on the future direction of the economic policy in the Republic of Belarus.

The management of the Bank has made its best estimate on the recoverability and classification of recorded assets and liabilities. However, this cannot be predicted with absolute certainty and the future operations of the Bank may continue to be affected by the economic policies in the Republic of Belarus.

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

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

### 23. TRANSACTIONS WITH RELATED PARTIES

Related parties are considered to include shareholders, affiliates and entities under common ownership, control/management with the Bank, or whose activities the Bank has an ability to control, as well as management and personnel of the Bank.

As of 31 December 2002 and 2001, the Bank had advances and loans to related parties (shareholders and subsidiaries) totaling BYR 32,244,649 thousand and BYR 62,787,624 thousand respectively, for which the Bank had an allowance for possible loan losses of BYR 2,257,125 thousand and BYR 6,278,762 thousand, respectively.

The Bank also held deposits from banks and customers of BYR 8,664,516 thousand and BYR 21,519,304 thousand as of 31 December 2002 and 2001, respectively, from related parties (shareholders and subsidiaries).

Included in the profit and loss account for the years ended 31 December 2002 and 2001 is income and expense in the following amounts which arose due to transactions with related parties:

	2002	2001 (as restated)
Interest income	439,930	1,275,141
Interest expense	519,869	912,585
Commission income	44,196	123,898
Commission expense	35,165	23,815
Other income	516,922	1,467,063
Other expense	490,997	275,069

All transactions with related parties entered by the Bank during the years ended 31 December 2002 and 2001 and outstanding as of 31 December 2002 and 2001 were made in the normal course of business and under arm-length conditions, except as discussed below.

In 2000 and 2001 a loan in BYR issued to the subsidiary of the Bank, ZAO "Interecon-N" in the amount of BYR 1,962,762 thousand and BYR 2,889,232 thousand bears rate of 6%.

## 24. PENSIONS AND RETIREMENT PLANS

Employees receive pension benefits from the Republic of Belarus in accordance with the laws and regulations of the country. As at 31 December 2002 and 2001, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 and IAS 39. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in these financial statements are not necessarily indicative of the amounts the Bank could realize in the market from the sale or realization of its full holdings of a particular instrument.

As at 31 December 2002 and 2001 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it was practicable to estimate such value:

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

*Loans and advances to banks* - For these assets, the carrying amount is a reasonable estimate of fair value.

*Trading securities* - Trading securities are stated at fair value, determined with reference to an active market.

*Securities available-for-sale* - Securities available-for-sale are stated at cost / amortized cost as no active market quotes are available for them. Management believes that the carrying amount of these securities is not materially different from fair value.

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

*Loans and advances from banks* - The carrying amount of loans and advances from banks is a reasonable estimate of their fair value.

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

*Securities purchased/sold under repurchase agreements* - The carrying value of securities sold under agreement to repurchase is a reasonable estimate of their fair value. The carrying amount of securities purchased under agreements to resell approximates their fair value.

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

## 26. CAPITAL ADEQUACY

The Basle Committee on banking supervision guidelines recommend that a bank maintains minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

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

The capital adequacy ratio was calculated (according to the principles employed by the Basle Committee) by applying the following risk estimates:

Estimate	Description of position
0%	Cash and balances with the National Bank of the Republic of Belarus
0%	State debt securities in BYR
20-100%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Guarantees
100%	Other assets

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

Capital amounts and ratios	Amount for capital adequacy purposes (in BYR thousand)	Ratio for capital adequacy purposes	Minimum Required Ratio
<b>At 31 December 2002</b>			
Total capital	70,082,793	18.4%	8.0%
Tier 1 capital	65,319,025	17.1%	4.0%
<b>At 31 December 2001</b>			
Total capital	78,502,285	19.0%	8.0%
Tier 1 capital	73,341,790	17.8%	4.0%

## 27. RISK MANAGEMENT POLICY

The Bank's activities expose it to a variety of financial risks, including currency risk, liquidity risk credit risk and market risk. The Bank's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize the adverse effects on the financial performance of the Bank.

**Credit risk** - The Bank is monitoring debt service, safety and appropriateness of collateral on loans to customers on a regular basis through a credit committee, which consists of Bank's management members.

**Liquidity and cash flow risks** - Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank manages this risk in accordance with the National Bank of the Republic of Belarus regulations and internal control procedures through the Department for Strategic Planning and Management of Banking Risks.

**Currency risk** - The Bank manages currency risk within limits on open foreign currency positions imposed by the National Bank of the Republic of Belarus, by means of internal control procedures.

**Interest rate and market risks** - The Bank has established controls over these types of risks on the level of the Banking Risks Management Committee, the major decisions of which are approved by the Board.

Generally, the Bank has the ability to change interest rates and therefore, changes in interest rates in the market have usually led to a revision of contract terms of most of the bank's financial instruments.

**Country risk** – the Bank operates through a wide network of correspondent banks, mainly in non-OECD countries as well as in Belarus. Services are rendered to clients mainly within Belarus.

In the course of running its business the Bank takes into account current and forecast future changes in the political and economic environment in the Republic of Belarus as well as their influence on ability of the customers and borrowers to meet their obligations. On a regular basis the Bank performs analysis of information about the state and development of industries, performance of the major credit and monetary policies by the government of the Republic of Belarus, development of the national legislation, and introduction of the market-oriented methods of management, privatization and de-nationalization.

## 28. MATURITY AND INTEREST RATE RISK ANALYSIS

The following table presents an analysis of interest rate risk and liquidity risk.

	31 December 2002 BYR thousand						
	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	Over 1 year	Maturity undefined	Total
<b>ASSETS</b>							
Loans and advances to banks, less allowance for possible loan losses	70,487,726	6,720,000	50,000	-	-	(1,968,021)	75,289,705
Trading securities	3,995,561	-	-	-	-	-	3,995,561
Loans and advances to customers, less allowance for possible loan losses	6,705,109	40,814,461	23,181,504	88,165,533	81,985,761	(25,631,819)	215,220,549
Securities purchased under agreement to resell	21,081,316	-	-	-	-	-	21,081,316
Investment securities less allowance for impairment	24,368,735	245,063	37,357	808,121	2,829,388	-	28,288,664
<b>Total interest bearing assets</b>	<b>126,638,447</b>	<b>47,779,524</b>	<b>23,268,861</b>	<b>88,973,654</b>	<b>84,815,149</b>	<b>(27,599,840)</b>	<b>343,875,795</b>
Cash and balances with the NBB	18,317,372	-	-	-	-	23,361,694	41,679,066
Loans and advances to banks, less allowance for possible loan losses	34,057,581	-	-	-	-	-	34,057,581
Trading securities	537,487	-	-	-	-	-	537,487
Loans and advances to customers, less allowance for possible loan losses	1,978,761	-	-	-	2,693,884	-	4,672,645
Investment securities less allowance for impairment	564,696	-	-	-	-	5,004,152	5,568,848
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	47,554,486	-	47,554,486
Other assets	2,340,958	989,662	1,325,895	823,078	1,659,867	(17,625)	7,121,835
<b>Total non-interest bearing assets</b>	<b>57,796,855</b>	<b>989,662</b>	<b>1,325,895</b>	<b>823,078</b>	<b>51,908,237</b>	<b>28,348,221</b>	<b>141,191,948</b>
<b>TOTAL ASSETS</b>	<b>184,435,302</b>	<b>48,769,186</b>	<b>24,594,756</b>	<b>89,796,732</b>	<b>136,723,386</b>	<b>748,381</b>	<b>485,067,743</b>
<b>LIABILITIES</b>							
Deposits from banks	66,335,166	6,993	55,471,680	120,960	1,736,733	-	123,671,532
Customer accounts	21,677,386	19,609,975	20,128,071	17,469,638	42,161,823	-	121,046,893
Securities sold under agreement to repurchase	3,352,336	-	-	-	-	-	3,352,336
Debt securities issued	1,235,898	2,889,524	23,000	-	-	-	4,148,422
<b>Total interest bearing liabilities</b>	<b>92,600,786</b>	<b>22,506,492</b>	<b>75,622,751</b>	<b>17,590,598</b>	<b>43,898,556</b>	<b>-</b>	<b>252,219,183</b>
Deposits from banks	24,821,352	-	-	-	-	-	24,821,352
Customer accounts	134,665,495	-	-	-	-	-	134,665,495
Government loans	21,703	-	-	-	-	-	21,703
Debt securities issued	3,230,182	1,235,849	16,000	-	-	-	4,482,031
Other liabilities	1,652,402	46,093	68,187	89,144	465,080	1,218,048	3,538,954
<b>Total non-interest bearing liabilities</b>	<b>164,391,134</b>	<b>1,281,942</b>	<b>84,187</b>	<b>89,144</b>	<b>465,080</b>	<b>1,218,048</b>	<b>167,529,535</b>
<b>TOTAL LIABILITIES</b>	<b>256,991,920</b>	<b>23,788,434</b>	<b>75,706,938</b>	<b>17,679,742</b>	<b>44,363,636</b>	<b>1,218,048</b>	<b>419,748,718</b>

	Up to 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	Over 1 year
Interest sensitivity gap	<u>34,037,661</u>	<u>25,273,032</u>	<u>(52,353,890)</u>	<u>71,383,056</u>	<u>40,916,593</u>
Cumulative interest sensitivity gap	<u>34,037,661</u>	<u>59,310,693</u>	<u>6,956,803</u>	<u>78,339,859</u>	<u>119,256,452</u>
Cumulative interest sensitivity gap as a percentage of total assets	<u>7%</u>	<u>12%</u>	<u>1%</u>	<u>16%</u>	<u>25%</u>

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

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Bank's previous experience indicate that these deposits are a stable and long-term source of finance for the Bank.

## 29. EFFECTIVE INTEREST RATE ANALYSIS

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.

	BYR	Other currencies
<b>ASSETS</b>		
Loans and advances to banks	from 35.3% to 83.8%	from 1.4% to 6.7%
Loans and advances to customers	from 42.9% to 75.4%	from 15.5% to 17.1%
<b>LIABILITIES</b>		
Deposits from the National Bank of the Republic of Belarus	from 0.0% to 19.0%	from 7.8% to 9.6%
Deposits from banks	from 18.4% to 90.2%	from 3.1% to 4.7%
Customer accounts	from 3.5% to 79.1%	from 0.8% to 11.4%
Debt securities issued	from 5.7% to 22.2%	from 4.7% to 13.6%

### 30. CURRENCY ANALYSIS

	BYR	USD 1USD= BYR 1,920	EUR 1EUR= BYR 1,993.63	RUR 1RUR= BYR 60.41	Other currency	Currency undefined	31 December 2002 BYR thousand  Total
<b>ASSETS</b>							
Cash and balances with the NBB	13,778,087	25,063,641	1,564,857	1,203,855	68,626	-	41,679,066
Loans and advances to banks, less allowance for possible loan losses	53,745,008	29,050,076	27,785,905	116	734,202	(1,968,021)	109,347,286
Trading securities	4,533,048	-	-	-	-	-	4,533,048
Loans and advances to customers, less allowance for possible loan losses	32,099,322	190,672,749	15,638,442	7,114,500	-	(25,631,819)	219,893,194
Securities purchased under agreement to resell	21,081,316	-	-	-	-	-	21,081,316
Investment securities less allowance for impairment	648,826	33,149,177	26,737	32,772	-	-	33,857,512
Fixed and other intangible assets, less accumulated depreciation	-	-	-	-	-	47,554,486	47,554,486
Other assets	2,636,586	1,574,173	2,198,325	16,988	2,685	693,078	7,121,835
<b>TOTAL ASSETS</b>	<b>128,522,193</b>	<b>279,509,816</b>	<b>47,214,266</b>	<b>8,368,231</b>	<b>805,513</b>	<b>20,647,724</b>	<b>485,067,743</b>
<b>LIABILITIES</b>							
Deposits from banks	12,539,411	68,517,034	8,015,946	58,585,083	835,410	-	148,492,884
Customer accounts	46,723,757	162,951,983	35,437,060	9,732,292	867,296	-	255,712,388
Government loans	21,703	-	-	-	-	-	21,703
Securities sold under agreement to repurchase	3,352,336	-	-	-	-	-	3,352,336
Debt securities issued	2,743,479	5,848,233	-	38,741	-	-	8,630,453
Other liabilities	1,013,614	412,671	138,577	404,659	351,385	1,218,048	3,538,954
<b>TOTAL LIABILITIES</b>	<b>66,394,300</b>	<b>237,729,921</b>	<b>43,591,583</b>	<b>68,760,775</b>	<b>2,054,091</b>	<b>1,218,048</b>	<b>419,748,718</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>62,127,893</b>	<b>41,779,895</b>	<b>3,622,683</b>	<b>(60,392,544)</b>	<b>(1,248,578)</b>		

### 31. GEOGRAPHICAL ANALYSIS

			31 December 2002
	OECD Countries	Non-OECD countries	BYR Thousand
			Total
Cash and balances with the NBB	-	41,679,066	41,679,066
Loans and advances to banks, less allowance for possible loan losses	22,953,419	86,393,867	109,347,286
Trading securities	-	4,533,048	4,533,048
Loans and advances to customers, less allowance for possible loan losses	-	219,893,194	219,893,194
Securities purchased under agreement to resell	-	21,081,316	21,081,316
Investment securities, less allowance for impairment losses	-	33,857,512	33,857,512
Fixed and other intangible assets, less accumulated depreciation	-	47,554,486	47,554,486
Other assets, less allowance for possible losses	-	7,121,835	7,121,835
<b>TOTAL ASSETS</b>	<b><u>22,953,419</u></b>	<b><u>462,114,324</u></b>	<b><u>485,067,743</u></b>
<b>LIABILITIES</b>			
Deposits from banks	-	148,492,884	148,492,884
Customer accounts	-	255,712,388	255,712,388
Government loans	-	21,703	21,703
Securities sold under agreement to repurchase	-	3,352,336	3,352,336
Debt securities issued	-	8,630,453	8,630,453
Other liabilities	-	3,538,954	3,538,954
<b>TOTAL LIABILITIES</b>	<b><u>-</u></b>	<b><u>419,748,718</u></b>	<b><u>419,748,718</u></b>
<b>TOTAL OPEN POSITION</b>	<b><u>22,953,419</u></b>	<b><u>42,365,606</u></b>	

# BRANCHES, CENTRES OF BANKING SERVICES, REPRESENTATIVE OFFICES, SUBSIDIARY AND ASSOCIATED COMPANIES

## BRANCHES AND CENTRES OF BANKING SERVICES

### MINSK

Belkoop Branch  
prosp. Masherova, 17, Minsk-4, 220004  
tel./fax: (017) 226-97-06, 226-91-74

Minsk Branch 1  
ul. Bogdanovicha 153, Minsk-40, 220040  
tel./fax: (017) 269-31-55, 269-36-52

Minsk Branch 2  
ul. Kulman 2, Minsk-13, 220013  
tel./fax: (017) 232-34-45, 232-56-31

Minsk Branch 2  
Luch Cash Settlement Centre  
prosp. Skoriny, 95, Minsk-43, 220043  
tel. (017) 266-17-75

Minsk Branch 3  
ul. Serova 4, Minsk-24, 220024  
tel./fax: (017) 275-13-45, 275-54-31

Minsk Branch 3  
MITSO Cash Settlement Centre  
ul. Kazintsa, 21/3, Minsk-99, 220099  
tel. (017) 207-64-93

Minsk Branch 3  
Kolyadichi-Avto Cash Settlement Centre  
ul. Babushkina 39, Koliadichi Industrial Park  
Minsk-24, 220024  
tel. (017) 275-99-18

Minsk Branch 4  
ul. Yakubova 10, Minsk-101, 220101  
tel./fax (017) 238-92-21

Minsk Branch 5  
ul. Skryganova 6, Minsk-73, 220073  
tel./fax (017) 209-24-33

### BREST REGION

Brest Regional Branch  
ul. Pushkinskaya 16/1, Brest-5, 224005  
tel./fax: (0162) 23-89-89, 23-54-16

Brest Regional Branch  
Cash Settlement Centre 1  
ul. Krasnogvardeyskaya 148, Brest-24, 224024  
tel. (0162) 45-33-46

Branch in Baranovichi  
ul. Sovetskaya 82, Baranovichi 225320, Brest region  
tel./fax (01634) 5-34-52

Branch in Kobrin  
ul. Dzerzhinskogo 61, Kobrin 225860, Brest region  
tel./fax (01642) 2-74-19

Branch in Pinsk  
ul. Brestskaya, 9, Pinsk 225710, Brest region  
tel./fax (0165) 32-43-78

### GOMEL REGION

Gomel Regional Branch  
ul. Gagarina 55, Gomel-50, 246050  
tel. (0232) 53-71-75

Gomel Regional Branch  
Spartak Cash Settlement Centre  
ul. Sovetskaya, 63, Gomel-55, 246655  
tel. (0232) 55-22-89

Gomel Regional Branch  
Novobelitsky Cash Settlement Centre  
ul. Ilyicha, 2, Gomel-21, 246021  
tel. (0232) 23-40-53

Gomel Regional Branch  
Mashinostroitel Cash Settlement Centre  
ul. Krestyanskaya, 1, Gomel-17, 246017  
tel. (0232) 53-53-86

Branch in Mozyr  
ul. Saeta, 4, 247760, Mozyr  
Gomel region  
tel./fax (02351) 2-98-80

Branch in Rechitsa  
ul. 10 Let Oktyabrya 6, 247500, Rechitsa  
Gomel region  
tel./fax (02340) 3-22-08

Branch in Svetlogorsk  
ul. Lenina 45a, 247400, Svetlogorsk , Gomel region  
tel./fax (02342) 2-75-08

#### **GRODNO REGION**

Grodno Regional Branch  
pl. Sovetskaya 1, Grodno-25, 230025  
tel./fax (0152) 75-18-78

Branch in Volkovysk  
ul. Lenina 37, 231900, Volkovysk, Grodno region  
tel./fax (01512) 2-22-19

Branch in Lida  
ul. Mitskevicha 23, 231300, Lida, Grodno region  
tel./fax (01561) 2-15-80

#### **VITEBSK REGION**

Vitebsk Regional Branch  
ul. Zamkovaya 4, Vitebsk-62, 210062  
tel./fax (0212) 36-47-28

Branch in Verkhnedvinsk  
ul. Sovetskaya, 173, 211620, Verkhnedvinsk,  
Vitebsk region  
tel./fax (02151) 5-12-64

Branch in Glubokoye  
ul. Engelsa, 2, 211800, Glubokoye, Vitebsk region  
tel./fax (02156) 2-21-36

Branch in Glubokoye  
Braslav Cash Settlement Centre  
ul. Leninskaya, 53, 211970, Braslav, Vitebsk region  
tel. (02153) 2-21-82, fax (02153) 2-91-34

Branch in Orsha  
ul. Mira, 30, 211030, Orsha, Vitebsk region  
tel./fax (02161) 2-40-63

Branch in Novopolotsk  
ul. Ya. Kolasa, 48, 211440, Novopolotsk  
Vitebsk region  
tel./fax (0214) 52-85-86, 52-85-24

#### **MINSK REGION**

Branch in Borisov  
ul. Gagarina 46a, 222120, Borisov  
Minsk region  
tel./fax (01777) 4-36-27

Branch in Borisov  
Cash Settlement Centre 1  
ul. Gagarina 105, 222120, Borisov  
Minsk region  
tel./fax (01777) 4-48-69

Branch in Molodechno  
ul. Vilenskaya 10, 222310, Molodechno  
Minsk region  
tel./fax (01773) 7-50-84

Branch in Molodechno  
Chist Cash Settlement Centre  
ul. Zavodskaya 1, 222321, Chist,  
Molodechno district, Minsk region  
tel./fax (01773) 9-04-38

#### **MOGILEV REGION**

Mogilev Regional Branch  
ul. Pionerskaya 26, Mogilev-30, 212030  
tel./fax (0222) 22-91-46

Branch in Bobruisk  
ul. Internatsionalnaya 49, 213819, Bobruisk  
Mogilev region  
tel./fax (02251) 2-28-12

Branch in Shklov  
ul. Sovetskaya, 67, 213010, Shklov  
Mogilev region  
tel./fax (02239) 3-21-98

## FOREIGN REPRESENTATIVE OFFICES

Representative Office in Moscow  
Russian Federation

ul. M. Poryvayevoy 7/811, 107078  
Moscow, A-78, Russian Federation  
tel./fax (8-107095) 204-93-02  
e-mail: bank@sovintel.ru

Representative Office in Poland

ul. Bukowinska, 24a, lok. 118  
02703 Warsaw, Poland  
tel./fax (8-104822) 847-51-80  
tel. (8-104822) 853-01-27  
e-mail: surganov@acn.waw.pl

## CENTRES OF BANKING SERVICES

Centre of Banking Services 1  
ul. Moskovskaya 13, Minsk-7, 220007  
tel./fax (017) 238-11-63, 220-93-03

Kolyadichi Centre of Banking Services  
ul. Babushkina 37, Koliadichi Industrial Park  
Minsk-24, 220024  
tel. (017) 275-97-11, 275-97-52

## SUBSIDIARY AND ASSOCIATED COMPANIES

Belvneshstrakh Insurance Company  
ul. Skryganova, 6/405  
220073, Minsk-73  
tel./fax (017) 209-24-17, 209-25-65  
e-mail: belvs@nsys.by

Belinterfinance Joint Venture  
ul. Moskovskaya, 13  
220007, Minsk-7  
tel./fax (017) 222-76-47, 222-80-24  
e-mail: bif@zubr.com

Interbranch Institute for Independent Expertise  
of Investment Projects  
ul. Skryganova, 6/511  
220073, Minsk-73  
tel./fax (017) 209-24-15, 209-25-29  
e-mail: p7126@mobis.by

Interecon-N  
ul. Skryganova, 6/506-510  
220073, Minsk-73  
tel./fax (017) 209-24-05, 209-24-06  
e-mail: intereko@mobis.by

Vneshstroyinvest  
ul. Skryganova, 6/507  
220073, Minsk-73  
tel./fax (017) 209-25-81, 209-25-48  
e-mail: v.s.i@bk.ru

Vnesheconomstroy  
prosp. Masherova 23701  
220004, Minsk-4  
tel./fax (017) 209-25-15, 226-96-34

**BELVNESHECONOMBANK**  
**HEAD OFFICE**

ul. Myasnikova, 32  
Minsk, 220050  
Republic of Belarus

tel. (375-17) 238-12-15  
fax (375-17) 226-48-09  
telex 252194, 252426, BVB BY  
e-mail: [office@bveb.minsk.by](mailto:office@bveb.minsk.by)  
[www.bveb.by](http://www.bveb.by)

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Information and Public Relations Unit  
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