
Dear Shareholders, Clients and Business Partners,

The Supervisory and Management Boards of Belvnesheconombank are privileged to submit to you the annual report about the Bank's operations in 2004.

During the past year, the Bank steered a circumspect and carefully weighed course targeted on enhancing its financial position and solvency, steadily raised its competitive capacity and built up its lending business, channeling credit resources to chief profit-making industries and priority projects and programs.

The Bank consistently complied with key financial and economic regulations and ratios defining business efficiency. Authorized capital increased by over a third following another subscription to the Bank's shares. The Bank's BYR resource base rose almost 2 times, its net worth grew 1.5 times with profits increasing 1.4 times. Belvnesheconombank holds a leading position among the nation's core banks in terms of returns on assets and net worth.

There were improvements in the loan portfolio quality with bad loans shrinking to 1.9%. It helped to deliver greater business gains and expand lending to customers that represent, first of all, GDP-generating industries in the real sector of economy. Over the accounting year, the Bank extended more than BYR 900 billion worth of loans. Long-term loan investments make up 35% of the loan portfolio, with manufacturing industries accounting for more than half the loans outstanding.

Considerable credit funds, exceeding the previous-year level almost 1.6 times, were advanced to the agricultural sector. Lending was also provided to consumer cooperative societies, efficiently performing SMEs, and general public for consumer needs and home-building and home-purchasing purposes.

The Bank's credit resources became more affordable to customers. During the year, average interest rates charged on newly-issued BYR loans dropped by 10.8 percentage points and those on newly-issued foreign exchange loans - by 1 percentage point.

The Bank was actively involved in attracting foreign loans with a view to financing investment projects of domestic exporters. Foreign credit lines allowed to implement upgrading projects at Mozyr Oil Refinery and BelAZ, a polyester plant development project at Khimvolokno-Svetlogorsk, and a rolling mill upgrading project at Belarusian Steel Works. The Bank concluded several more promising loan deals. A stable and mutually advantageous relationship with the international banking community is facilitated by the Bank's correspondent network comprising more than 600 banks from 81 countries across the world.

Owing to the application of state-of-the-art information technologies, the Bank substantially increased the volume, range and quality of banking products and services. At present, the Bank's ATMs and CATs offer customers more than 20 international-class service options. A number of bankcard-using projects were carried out. The Bank made further advances in gold bullion trading and launched a corporate bullion accounts service.



In 2004, the Bank continued to upgrade its IT systems based on the EQUATION-AS/400 software/hardware product and installed new software applications to handle interbank settlements and credit operations.

In line with our strategic priorities of enhancing our dependability and competitiveness in the domestic financial market, we plan to implement a package of measures to further build up statutory capital, net worth and resource base by tapping internal and external sources, streamline branch network business, introduce cutting-edge banking products and services, and flexible interest rates. In implementing its customer management policy, the Bank will continue to operate in such a manner as to become a strategic partner bank for its clients.

The Supervisory and Management Boards are profoundly grateful to all shareholders, clients and business partners for an effective and mutually rewarding cooperation. We hope that our interaction based on advanced organizational and corporate governance techniques and active marketing policy would contribute to a successful fulfillment by the Bank of its immediate and long-term goals of effective business development and attainment of stable financial results, and lead to a growth of confidence in Belvnesheconombank as a staunch and trustworthy partner in Belarus and abroad.

On behalf of

the Supervisory Board

V.N. Drazhin

the Management Board

G.A. Egorov

PRINCIPAL TRENDS IN THE ECONOMY AND MONETARY SPHERE OF BELARUS IN 2004

Macroeconomic Situation

In 2004, the country's macroeconomic situation exhibited an accelerated economic growth, increase in real household cash earnings and savings, slowdown in inflation, and reduced levels of unemployment.

All of the country's 2004 projected targets of social and economic development were achieved.

In the year under review, GDP increased 11% in comparable prices while industrial output rose 15.6%. Investment in fixed assets and social sector amounted to BYR 10.2 trillion, 97% of investments came from domestic sources, while foreign investments amounted to USD 142 million.

Long-term loans to the economy increased 36.9% and the share of long-term BYR loans rose up to 53% of the total.

In 2004, foreign trade in goods and services amounted to the equivalent of USD 32.8 billion, with exports accounting for USD 15.5 billion and imports - USD 17.3 billion. In comparison with 2003, foreign trade grew 37.1% with exports increasing 35.2% and imports - 38.7%. The negative balance of foreign trade in goods and services totaled USD 1,849.9 million.

In the past year, the country's budget revenues amounted to BYR 8.9 trillion while spending reached BYR 9.1 trillion. National budget deficit reached BYR 0.2 trillion or 0.5% of GDP. As compared with early 2004, the country's foreign debt decreased by USD 4.7 million to total USD 741.1 million.

In 2004, domestic industrial enterprises grossed BYR 3.9 trillion in pre-tax profits, i.e. 1.7 times as high as in 2003. Cost efficiency was 15.3% compared with 12% in 2003. The share of unprofitable enterprises decreased from 35.9% in 2003 to 28.5% in 2004. In the year under review, overdue accounts payable fell by 19.7%.

In 2004, nominal household cash earnings increased 34.1% and real household cash earnings rose 13.6%. BYR time deposits grew 97.1% and call deposits 2.1 times. Foreign exchange household deposits increased by USD 171.9 million to reach USD 713.2 million at the start of 2005. Overall, 2004 witnessed a 1.7-fold increase in funds placed on household accounts with domestic banks.

The consumer price index grew 14.4% in 2004 (25.4% in 2003), that in industry rose 19% (28.7% in 2003).

Monetary Trends

The monetary sphere displayed a decelerated depreciation of the national currency, increased BYR supply, comprehensive reduction in rates, and maintenance of positive interest rates in the deposit and debt market, which generate growth in BYR savings and give businesses and general public a wider access to bank loans. The forex market was relatively stable.

In 2004, the official exchange rate of BYR to RUR slipped by 6.4% (BYR 77.91 to RUR 1), to USD - by 0.6% (BYR 2,170 to USD 1), to EUR - by 9.7% (BYR 2,956 to EUR 1).

In the accounting year, foreign exchange receipts in corporate accounts increased 48.7% while foreign exchange supply grew 53.7%.

BYR money stock increased 58.1% in 2004, owing to a 55.4% increase in cash in circulation and call deposits and an 82.5% increase in household and corporate time deposits. Cash in circulation grew 44.6%, BYR household deposits - 99.9%, including a 110% growth in call deposits and a 97.1% growth in time deposits.

BYR corporate deposits increased 46.5%, including a 50.9% increase in call deposits and a 33.4% increase in time deposits. The share of corporate and household time deposits in 2004 rose by 5.4 percentage points (primarily due to household time deposits which account for 90.7% of the overall growth). Foreign exchange deposits increased 25.8% in the USD equivalent, including a 21.4% growth in corporate deposits and a 31.8% growth in household deposits. In 2004,

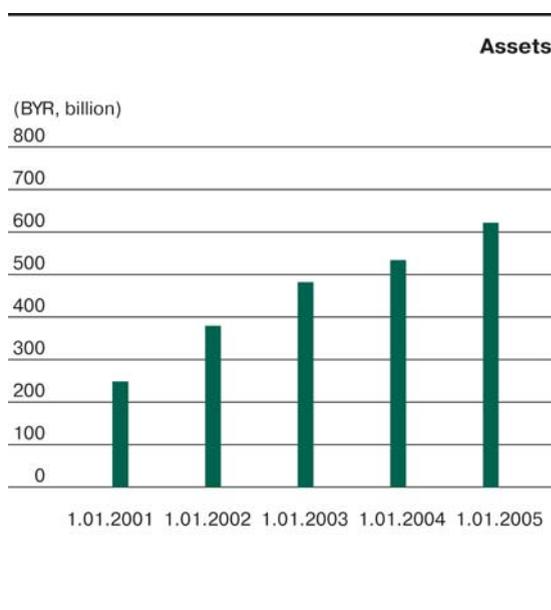
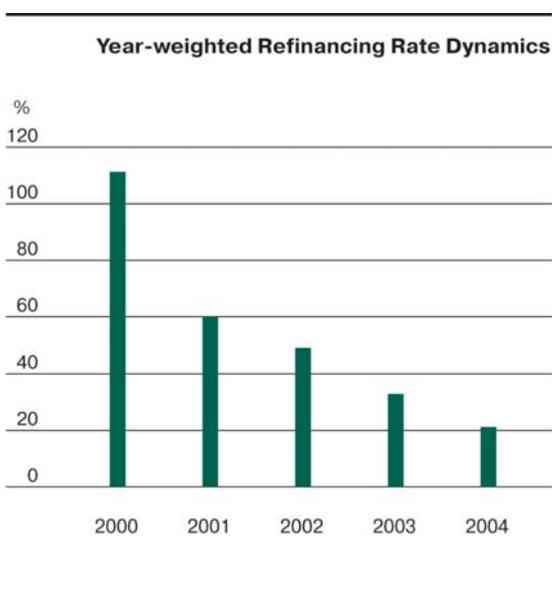
broad money scored a 44.1% increase. BYR component of the broad money stock rose by 5.4 percentage points to reach 61% at the start of 2005. BYR base money increased 38.9% in 2004.

During the year under review, the refinancing base rate dropped from 28% p.a. to 17% p.a. and averaged 21.3% p.a. over 2004.

Interest policy measures taken by the National Bank of the Republic of Belarus and improvements in the economic situation, above all, the slowdown in inflation, stimulated a reduction in interest rates in the monetary market in 2004.

The average interest rate earned by newly-placed BYR corporate and household time deposits stood at 17.3% p.a. in December 2004, i.e. 6.5 percentage points lower than in December 2003.

The average interest rate earned by newly-placed foreign exchange corporate and household time



deposits was 6.2% p.a. in 2004 against 6.7% p.a. in 2003.

Over the year, BYR deposits generated higher returns than foreign exchange deposits did.

The average interest rate charged on newly-issued interbank BYR loans was 20% p.a. in December 2004, which is 10.9 percentage points lower than the year-earlier level.

The interest rate applied to newly-issued interbank foreign exchange loans declined from 11% p.a. in December 2003 to 10.1% p.a. in December 2004. Averaged across 2004, this rate was 10.1% p.a., which is 2.1 percentage points lower than in 2003.

Banking Industry of the Republic of Belarus in 2004

As at January 1, 2005, the banking industry of Belarus comprised 32 banks including 27 banks with foreign participation in the statutory capital, an 8 banks with 100% foreign statutory capital. 7 banks are residents of the free economic zone. Banks of Russia, Lithuania, Latvia, Germany, Poland and Kazakhstan have 12 representative offices in Belarus.

The banks' statutory capital increased 49.4% while their net worth grew 41.4%. The banking industry's resource base rose 45.1%. Corporate and household deposits dominated in the resource base accounting for 24% and a 26.7% in the banks' liabilities respectively.

The banks' total lending to the economy scored a 56.1% increase (including a 71.5% increase in BYR loans and a 39.1% increase in foreign exchange loans).

Government Bonds Market

BYR-denominated government bonds (T-bills and bonds) placed in 2004 in the primary market amounted to BYR 1.2 trillion at cost (BYR 725.5 billion in 2003). At the start of 2005, T-bills and bonds in circulation totaled BYR 1.250 trillion at face value. In 2004, the Ministry of Finance placed foreign exchange-denominated government bonds in the amount of EUR 18 million and USD 21 million.

The financing of the state budget deficit by issuing government bonds amounted to BYR 467.7 billion.

In 2004, the rate of return from operations in primary market BYR government bonds was 14.4% p.a.

The total volume of trades in secondary market government bonds was 46% as high as the previous-year level. Yields from secondary market government bonds 'held to maturity' shrunk from 26.6% p.a. in January to 17.6% p.a. in December 2004. Overall, in 2004, the rate of return from operations in secondary market government bonds was 21.7% p.a. As at start-2005, government bonds held by the banks accounted for 65.1% of all government bonds in circulation (T-bills and bonds at face value).

SUPERVISORY BOARD

CHAIRMAN

Vladimir DRAZHIN
Deputy Prime Minister of the Republic of Belarus

DEPUTY CHAIRMEN

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

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

MEMBERS OF THE SUPERVISORY BOARD

Nikolai ANDRIANOV
General Director, RUP Belarusian Steel Works,
Zhlobin

Loran ARINICH
General Director, ZAO Pinskdiv

Viktor GRIGORYEV
First Vice President, ZAO GK Kaskol, Moscow

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

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

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

Tatyana POLEGOSHKO
Director of the Banking Operations Regulation
Directorate,
National Bank of the Republic of Belarus

Anatoly SVERZH
First Deputy Minister of Finance of the Republic
of Belarus

MANAGEMENT BOARD



CHAIRMAN

Georgy EGOROV



FIRST DEPUTY CHAIRMAN

Valentin ZAYASH

DEPUTY CHAIRMEN



Serguei SHCHERBAK



Dmitri KOULEVATSKY

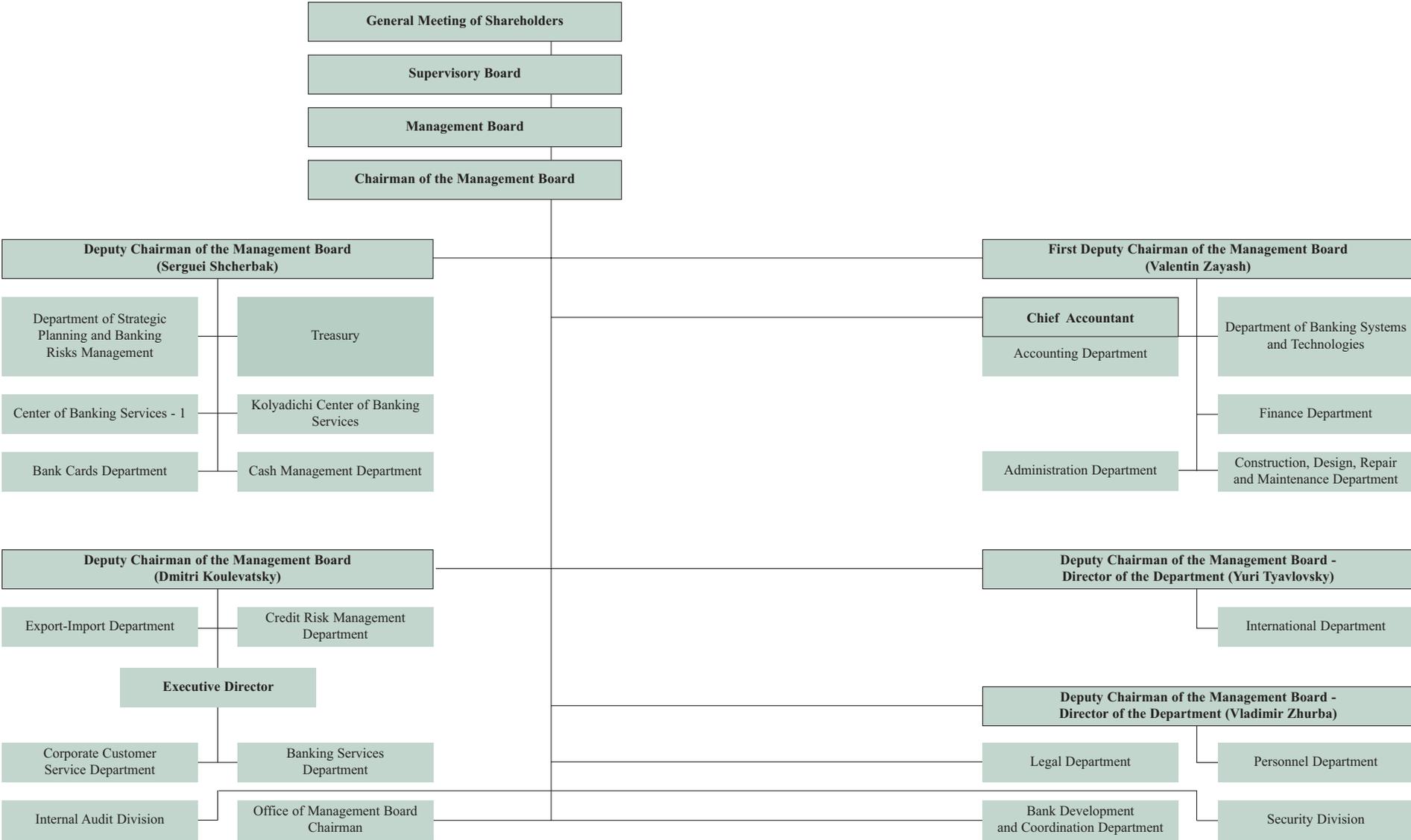


Yuri TYAVLOVSKY



Vladimir ZHURBA

BELVNESHECONOMBANK ORGANIZATIONAL CHART



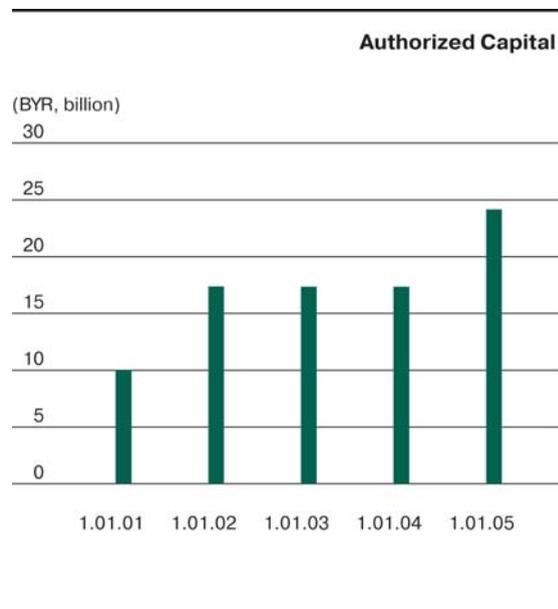
AUTHORIZED CAPITAL AND SHAREHOLDERS

Public subscription to the fifth share issue was one of the main events of the past year that helped the Bank to raise BYR 7 billion and increase its authorized capital more than 1.4 times.

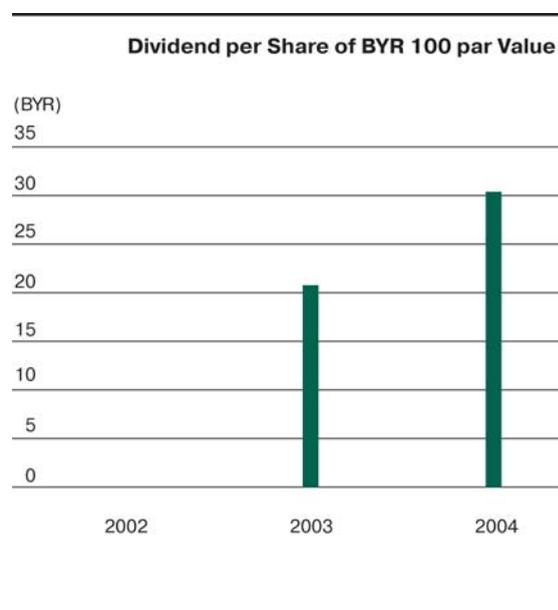
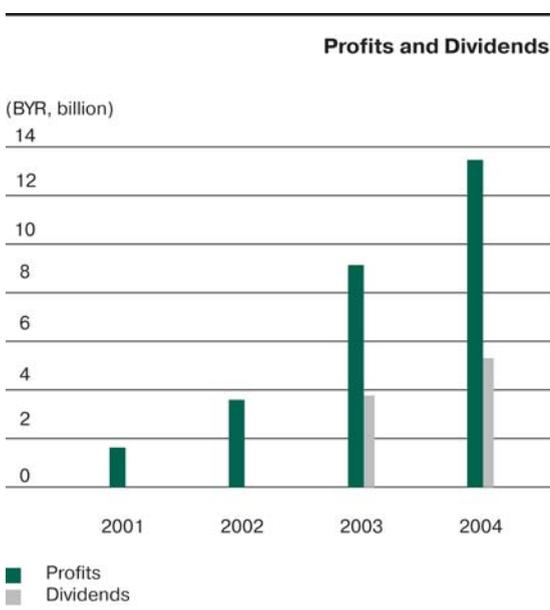
The Bank's existing shareholders took full advantage of their priority share-purchasing right provided under the share issue subscription rules.

Among subscription participants were the National Bank of the Republic of Belarus, OAO Natsionalny Kosmichesky Bank (Moscow), ZAO Pinskdiv, OAO "Belarusbank" Savings Bank, OAO DOK-Borisov, the Bank for Foreign Economic Affairs-USSR (Moscow), OAO Produkty (Pinsk), and a number of existing shareholders from among the general public.

The increase in the share capital allowed the Bank to substantially enhance its capital base and ensure compliance with the Belarus National



Bank indicative recommendations on capital and net worth increment. As a result, the Bank gained an additional leverage to build up its credit operations and expand lending to its shareholders and customers.



As at January 1, 2004, the Bank's authorized capital amounted to BYR 24,157.9 million with equity stakes held by over 800 corporate entities and 44 000 individuals. The share subscription has not changed the Bank's shareholding profile in any substantial way with the state-run companies and foreign investors accounting for 48.4% and 34.6% of the authorized capital respectively.

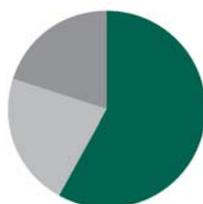
- National Bank of the Republic of Belarus;
- OAO Natsionalny Kosmichesky Bank, Moscow;
- ZAO Pinskiy Drev;
- Ministry of Economy of the Republic of Belarus;
- RUP Belarusian Steel Works, Zhlobin; and
- Willesden Industries Limited, UK;
- OAO Mozyr Oil Refinery;
- ZAO Atlant, Minsk; and
- USP Belvneshtstrakh, Minsk.

In 2004, the Bank's shares yielded a greater return. In accordance with the resolution of the General Meeting of Shareholders dividend payment to the Bank's shareholders amounted to BYR 31 per share with a par value of BYR 100 that is well above the banking industry average income generated by household deposits. Per-share dividend paid in 2003 was BYR 21.68.

Equity stakes of over 1% are held by:

Development Fund Allocations

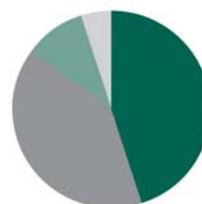
2004



-
- Construction - 58%
 - Banking Systems and Technologies - 22%
 - Fixed Assets - 20%
-

Profit Distribution

2004



-
- Development Fund - 45 %
 - Dividend Fund - 40 %
 - Reserve Fund - 10 %
 - Payroll Reserve Fund - 5 %
-

RESOURCE DEVELOPMENT POLICY

Development of stable long-term sources of funds to replenish the Bank's resource base, and thereby develop its asset portfolios and improve their quality was one of the Bank's top-priority goals.

Belvnesheconombank was actively involved in optimizing the structure of its assets and liabilities, ensuring a balance in respect of maturities and volumes and improving its credit risk management system.

As a result, the volume of BYR funds mobilized by the Bank rose by 39.8%, while that in foreign currencies - by 5.1%. As before, major sources of borrowing were corporate and pri-

vate customer funds. Their share in the structure of funds mobilized by the Bank as at January 1, 2005 reached 74.1%. Over 2004 the share of private customers in the total volume of BYR funds grew from 21.2% to 27.0% and that in foreign currencies - from 28.8% to 34.8%.

In 2004, owing to its prudent customer policy the Bank secured a material reduction in risk exposures, primarily the liquidity risks.

In building its assets portfolio, the Bank was guided by the principle of a weighed and diversified placement of funds with due account for restrictions applied to credit operations.

LENDING OPERATIONS

Proceeding from the 2004 Belarus Monetary Policy Guidelines, Belvnesheconombank focused its efforts on channeling its financial and lending support to the country's key economic and social programs. The Bank was strengthening business relationships and increasing lending support to the customers that primarily represent the key industries in the real sector of the economy, SME businesses and general public.

The amount of loans outstanding grew 32.5% and totaled BYR 355.4 billion as at January 1, 2005, including USD 107.8 million, EUR 11.4 million and RUR 169.2 million (78.2% of all the loan amount outstanding).

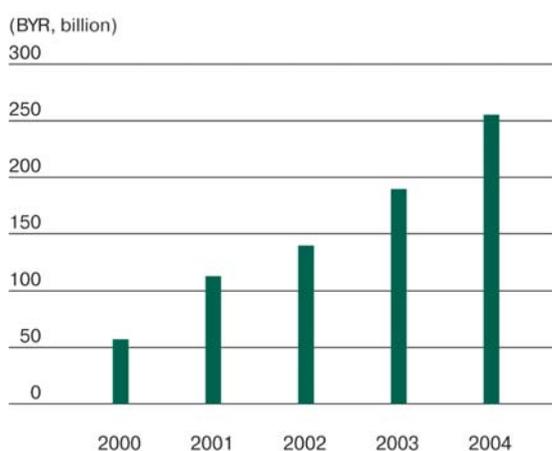
Over the past year, the Bank's loan disbursements amounted to BYR 926.9 billion, including those in the domestic currency - BYR 256.4 billion, foreign currency - the equivalent of BYR 670.5 billion (the relevant figures for the previous year

were BYR 751.2 billion, BYR 190.8 billion and the equivalent of BYR 560.5 billion respectively).

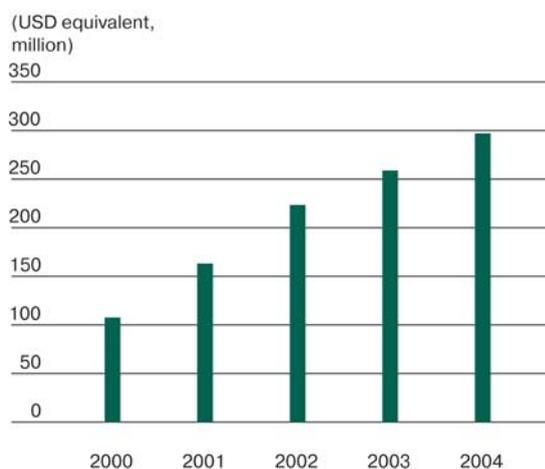
Among the Bank's main borrowers were Khimvolokno-Mogilev, Naftan/Novopolotsk, Mozyr Oil Refinery, Horizont/Minsk, Khimvolokno-Svetlogorsk, Lakokraska/Lida, Brest Dairy Plant, Neman Tobacco Factory/Grodno, Spartak/Gomel, Avtogydrousilitel/Borisov, etc.

The Bank continued to maintain close cooperation with Horizont, increasing the amount of lending to replenish the company's working capital. In 2004, Horizont was advanced USD 27.1 million in loans and USD 19.3 million in the form of uncovered L/C financing. Largely owing to this support, Horizont managed to increase the production of TV-sets 2 times (724 thousand sets), and DVD-players - 1.7 times (16.7 thousand). In addition, the company launched mass

BYR Loans Disbursed



Foreign Exchange Loans Disbursed



production of new goods including home cinema acoustic systems, LCD televisions and monitors.

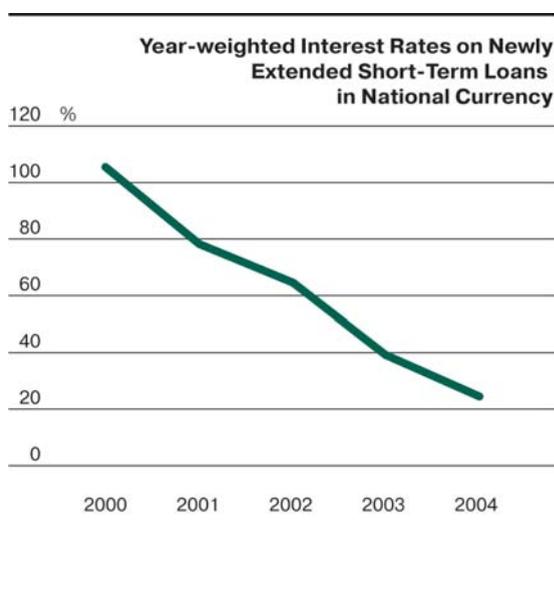
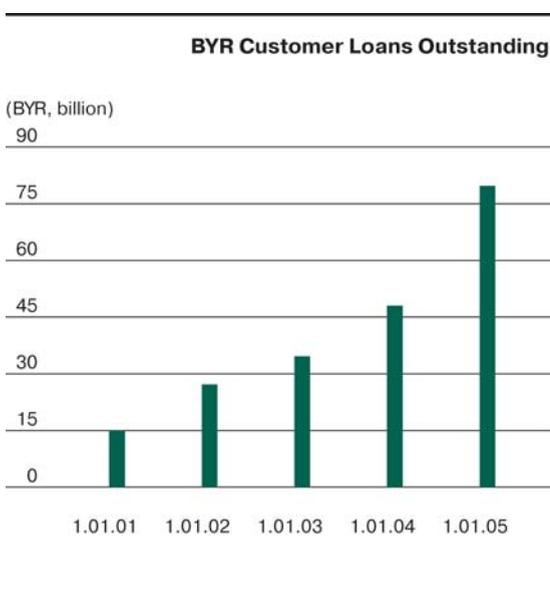
Mutually beneficial cooperation with Belryba was further expanded in 2004. Loans disbursed by the Bank to pay for fish products deliveries to the Belarusian market reached USD 10.8 million, that is 3.6 times as much as in 2003. In addition to replenishing the company's working capital, loan funds were also used to update its production base. Under a finance leasing arrangement, Belryba received motor vehicles, processing and retail store equipment. Owing to this financial support the company increased its earnings 2.9 times and laid the groundwork for further business growth.

Considerable loan funds were disbursed by the Bank to credit day-to-day operations of Belneftekhim group of companies. Naftan was granted loans to the tune of USD 77.7 million to

purchase crude oil. Khimvolokno-Mogilev received USD 23.2 million and BYR 24.6 billion in loans to procure feedstock. As a result of this loan infusion the company's exports reached USD 435.3 million, scoring a 16.5% increase over the previous year.

The amount of lending extended by the Bank to Brest Dairy Plant reached BYR 30.6 billion and USD 1.4 million in 2004. 95% of loan proceeds was used to pay for raw materials. The Plant managed to achieve a high rate of development in terms of key performance indicators. The volume of production and earnings rose 1.7 times, generating a 1.3-fold increase in profits. Owing to a successful penetration of the Russian market its exports rose 3.5 times to reach USD 14.7 million.

Considerable lending resources, totaling BYR 130.1 billion, 56% more than the year before,



were earmarked for the agribusiness sector. Loans outstanding reached BYR 74 billion.

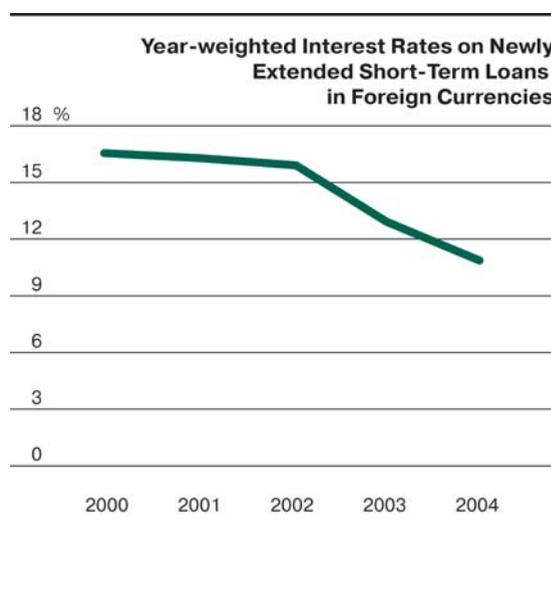
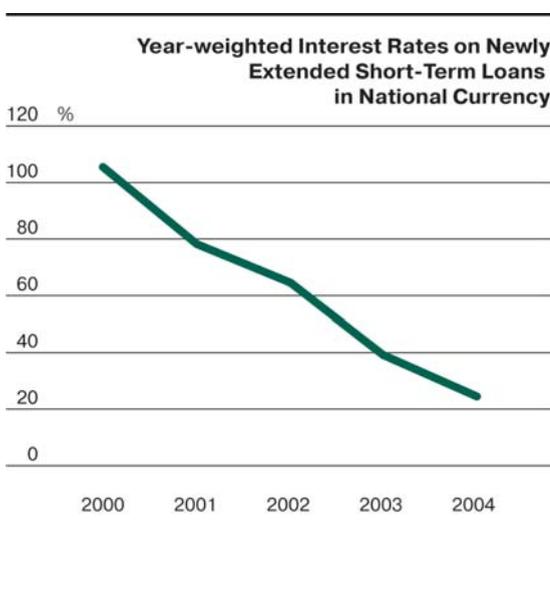
In accordance with the Belarus Council of Ministers Directive concerning purchases of agricultural machinery in 2004, a loan of BYR 3.8 billion was granted to Vitebsk Oblagroservis to buy domestically manufactured farming equipment. A loan of EUR 0.7 million was granted to Brestoblagroservis for the purchase of foreign-made farming machinery for subsequent leasing to agricultural enterprises in the Brest Region.

The Bank expanded investment lending to the real sector of the economy. The share of long-term loan infusions reached 35% of the loan portfolio, growing by 5% compared with the year before. The total amount of loans granted in 2004 under investment programs was BYR 75.5 billion, including BYR 13.7 billion in

BYR-denominated loans and BYR 61.8 billion equivalent in foreign-currency loans. Viewed by type of financing arrangement, the Bank's loan investments included long-term loans to the tune of BYR 58.7 billion (77.7%) and leasing transactions to the tune of BYR 16.8 billion (22.3%).

A loan of USD 1.1 million was granted to Avtogydrousilitel/Borisov to update its production base. As a result of bringing new products to the market, the company recorded a 57-percent increase in its exports against 2003.

In 2004, The Bank began to fund a propylene film production project at Kashtan Foreign-Owned Company, an affiliate of Chestnut AG, extending a loan of USD 1.0 million. Once fully operational, the project would allow to annually manufacture USD 34.0 million worth of export products.



Belvnesheconombank took part in the funding of a BelCel project aimed at developing wireless telecommunications employing the 3G cdma2000 standard. Using the Bank's financial aid (financial leasing, investment loan, uncovered L/Cs) the company purchased 26 base stations worth USD 2.6 million to enlarge its network and increase its service capacity. As a result, BelCel managed to achieve a 7-fold increase in the number of subscribers that now total 85,000.

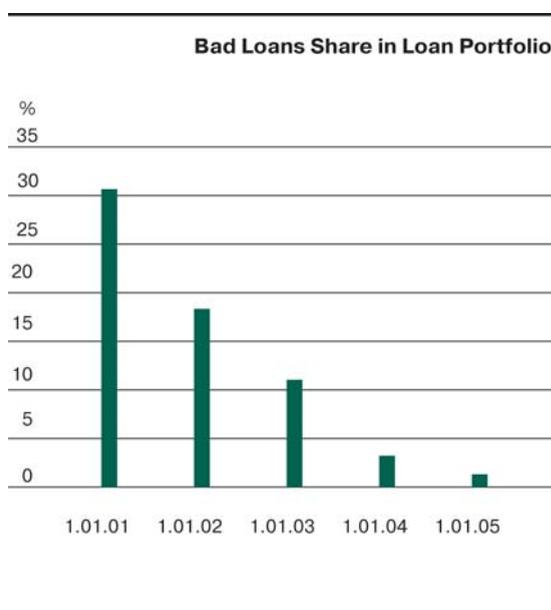
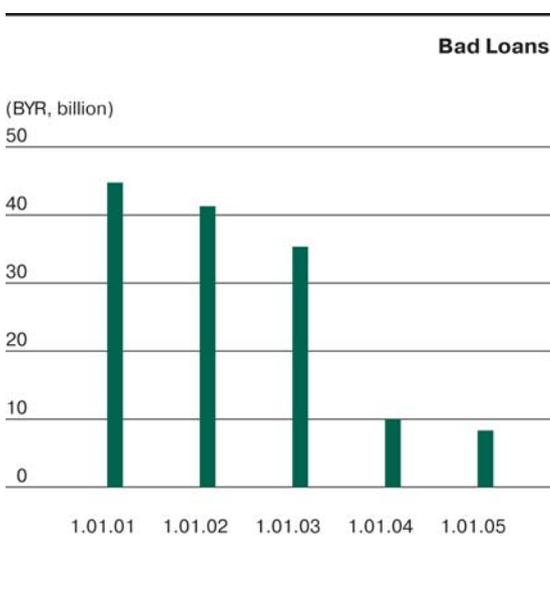
Pursuing the 2004 Belarus SME support program, Belvnesheconombank extended a total of BYR 126.3 billion in loans to efficiently operating small and medium businesses.

In line with the recommendations issued by the Belarus National Bank within the framework of the Belarus Concept of Banking Industry Development, 2001-2010, the Bank implemented the policy of lowering loan interest rates. Average interest rates on newly extended short-term BYR-

denominated loans were decreased by 10.8 percentage points, those charged on foreign-currency loans - by one percentage point.

Over the period under review, the Bank advanced USD 23.8 million in equivalent to finance deals employing assignment of cash proceeds instruments (factoring).

Further work was undertaken with a view to improving the loan portfolio quality and ensuring compliance with the National Bank recommendation on keeping bad loans at a level not exceeding 4%. Bad loans shrunk by 18% during 2004 and their share within the loan portfolio came down to 1.9%. As a result of efforts undertaken in 2004, the Bank managed to recover USD 11.1 million, RUR 19.8 million, EUR 1.8 million and BYR 20.9 billion in bad loans. Throughout 2004, the Bank maintained an adequate provision for possible losses of assets exposed to credit risk.



Overseas Credit Lines

During 2004, Belvnesheconombank acting in its capacity of the Government's agent bank continued to manage:

- twenty loans in the amount of EUR 194.9 million extended by Ausfuhrkredit Gesellschaft mbH. As at January 1, 2005, the amount owing to this bank was EUR 70.0 million;
- four loans in the amount of EUR 37.9 million advanced by Bank Austria Creditanstalt AG to implement Fandok, Mozyr Oil Refinery, Molodechno Meat Packing Plant and Ministry of Health projects. As at January 1, 2005, the amount owing to this bank was EUR 9.0 million;
- a loan issued by Czech Export Bank for a BelAZ rehabilitation project. The total amount of loan proceeds disbursed to BelAZ via Belvnesheconombank was USD 79.3 million. As at January 1, 2005, the amount due to be repaid to CEB was USD 42.9 million;
- a loan of KD 5.1 million advanced 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. The total amount of disbursements as at January 1, 2005, was KD 5.1 million (USD 17.3 million), of these KD 1.1 million (USD 3.8 million) was disbursed in 2004;
- two loans of EUR 39.7 million from Bayerische Landesbank Girozentrale to fund a rolling mill upgrading project at Belarusian Steel Works. The amount of loan funds yet to be repaid was EUR 7.9 million as at January 1, 2005; and
- two loans granted by Bayerische Hypo- und Vereinsbank, Munich, Germany to finance the

construction of a teaching building of the School of Foreign Relations at Belarusian State University. The financing of this project is arranged in two tranches with a total value of EUR 6.3 million. Loan proceeds drawn down as at January 1, 2005, totaled EUR 5.4 million, including EUR 1.9 million disbursed in 2004.

In addition to managing foreign loans that were previously granted under government guarantees to finance projects in Belarus, the Bank also worked on concluding new agreements with foreign banks.

Implementation of loan agreements with foreign banks and international financial institutions with a view to raising investment and long-term loan funds both with and without Belarus Government guarantees made it possible to attract EUR 1.9 million and Kuwait Dinars (KD) 1.1 million to the country's economy in 2004.

The Bank continued to provide maintenance service with regard to the loan facility of USD 0.5 million extended by Bank Handlowy w Warszawie, Poland, without a government guarantee to finance the purchase of equipment for the production fast-ripening cheese and curds at Brest Dairy Plant.

As a result of work carried out by the Bank during a government delegation visit to Milan, Italy, in May 2004 a Master Loan Agreement was signed with Mediobanca -Banca di Credito Finanziario S.p.A., Italy, in the amount of EUR 20.0 million. The signing of this Agreement marked a resumption of credit and investment

cooperation between Belarus and Italy. Relevant decisions to provide export loan insurance guarantees in the amount up to EUR 25 million were passed by SACE, Italy's Institute for Foreign Trade Insurance Services, in the summer of 2004.

In 2004, Belvnesheconombank actively worked with foreign lending institutions to put in place a financing arrangement to fund Khimvolokno-Mogilev projects. As a result, the Bank concluded loan agreements totaling EUR 47.1 million. During the above-mentioned government visit to Milan a EUR 7.8-million loan agreement was reached with Mediobanca to finance the supply of a complete processing line for the production of spunbonded polyester substrates for roofing material.

In order to finance the second phase of this project an Individual loan Agreement in the amount of EUR 7.3 million was signed with Ausfuhrkredit Gesellschaft mbH.

Two Standard Loan Agreements in the total amount of EUR 32.0 million were concluded with Bayerische Hypo- und Vereinsbank AG to finance the purchase of a continuous polycondensation unit for PET granule production and an installation for the production of high-modulus high-strength technical yarn by Khimvolokno-Mogilev, including:

- Standard Loan Agreement No. 03 for a loan of EUR 25.7 million to cover 85% of the value of a contract on the supply of equipment by Uhde-Inventa Fischer GmbH & Co. KG; and
- Standard Loan Agreement No. 04 for a loan

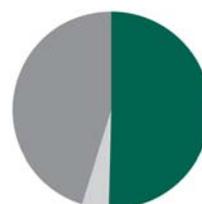
of EUR 6.3 million to cover 85% of the value of a contract on the supply of equipment by EPC Engineering und Projectmanagement Consulting GmbH.

Support of Exporting Industries out of Export Promotion Fund Disbursements

The Bank discharged all the functions with regard to the administration of the Export Promotion Fund (EPF). In 2004, the Bank reviewed 13 applications and business plans submitted by exporting companies.

The Export Promotion Committee under the Belarus Council of Ministers approved 12 projects selected by the Bank for EPF funding in the amount of BYR 5,239.0 million, including five investment projects submitted by Svitanak/Orsha, Optik/Lida, Belaruskabel/Mozyr, Brest Dairy Plant, S.I. Vavilov Mechanical Works, and also

Bad Loans by Category, January 1, 2005



■ Rescheduled - 50,4 %
■ Overdue - 4,4 %
■ Doubtful - 45,2 %

National Center of Marketing and Pricing Trends/Minsk. In 2004, EPF funds began to be used to partly offset costs of participation of domestic companies in exhibitions and fairs held abroad, a total of BYR 466 million was disbursed for this purpose.

The amount of disbursements made out of the EPF to finance various corporate projects totaled BYR 5,265.0 million.

The Bank conducted monitoring of the financial position and solvency of borrower companies. On-going interaction with EPF beneficiaries made it possible to replenish the Fund by receiving interest and penalty payments - BYR 872.0 and BYR 92.8 million respectively.

In 2004, 10 EPF-supported projects were completed by borrower companies. The Bank's mar-

gin earnings from administering the EPF resources totaled BYR 330 million.

2005 Targets

In accordance with the 2005 key business targets approved by Supervisory Board resolution dated April 14, 2005, Belvnesheconombank's lending to the economy is to be increased by 35% to total BYR 485 billion as at January 1, 2006.

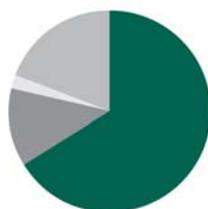
Household lending is planned to reach BYR 32 billion with not less than BYR 2.7 billion to be earmarked for home building, renovating and purchasing purposes.

In accordance with the Bank's business development strategy, its lending policy will be focused on achieving the following goals:

- channeling lending resources to the priority

Lending by Industry

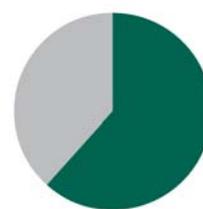
2004



Manufacturing - 66,1%
 Trade and Public Catering - 12,5%
 Agriculture - 2,2%
 Other - 19,2%

Lending by Customer Form of Ownership

2004



Private Sector - 61,6%
 Public Sector - 38,4%

industries (steel, chemicals, oil refining, engineering, electronics and food processing);

- providing foreign currency loans to mainly export-oriented companies;
- assisting in the implementation of governmental programs of providing state support to the national economy;
- minimizing risks to deliver a stable and balanced loan portfolio;
- ensuring a consistent growth in earnings from lending operations;
- diversifying credit risks;
- expanding lending to efficiently operating businesses in the SME sector and individual entrepreneurs and building up its presence in new lending market segments;
- increasing the amount of household lending and meeting targets set with regard to providing loans for home building and purchasing purposes; and
- developing new household lending instruments and improving customer service.

The Bank also envisages to further improve its leasing procedures and increase the amount of leasing operations.

In carrying out its lending business, the Bank will constantly monitor the composition and quality of the loan portfolio to ensure efficient credit risk management.

The Bank will continue to take measures to secure bad debt recovery. In handling this matter the Bank will strive to minimize its risks by detecting bad loans as early as possible, examining causes that lead to loan deterioration and taking remedial action to collect such loans. At that, the share of bad loans within the loan portfolio should not exceed 3%.

INTERNATIONAL SETTLEMENTS AND TRADE FINANCE

Maximizing the use of competitive, high-yielding banking products and services matching international standards and customers' business needs was used as a leverage to enhance financial support and improve services rendered to the Bank's customers in their cross-border business operations. In the final account, it allowed the Bank to retain and expand its core business as an international trade and settlement service provider for domestic exporters, banking institutions and other customer sectors.

2004 saw an increase in the number and amount of import L/Cs - a total of 340 L/Cs were issued to the tune of USD 82.9 million equivalent, i.e. 1.5 times as much as in 2003. Considerable amount of work was put into promoting customer use of uncovered L/Cs and arranging short-term L/C financing from foreign banks. As a result, a total of 263 uncovered L/Cs worth USD 61.9 million were opened in 2004

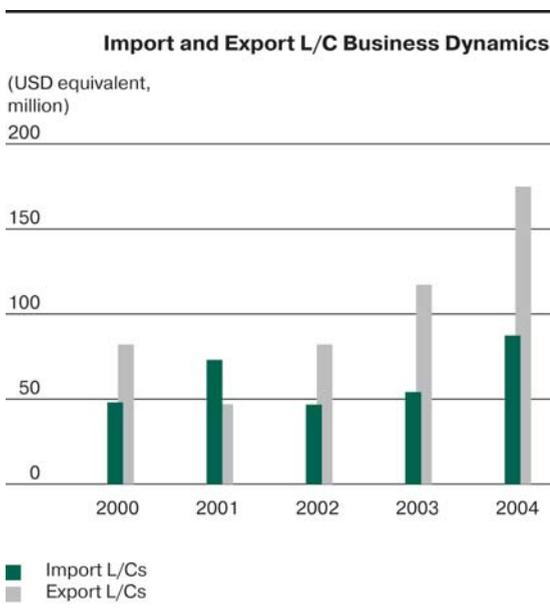
(74.33% of the total value of all L/Cs issued over the year).

39 L/Cs worth USD 13.1 million were opened under short-term financing arrangements, i.e. 1.5 times as much as in the previous year. There was also an increase in the number of foreign banks providing L/C financing. Application of uncovered L/C financing instruments permitted the Bank to release its resources for uses other than crediting customers in need of additional funds and attract new customers interested in such import settlement transactions. Using a deferred payment L/C arrangement that also makes it possible to complete deals without tying up its resources, the Bank used the released resources to purchase equipment for subsequent leasing.

Over the year, 77 secured L/Cs worth USD 21 million were issued, i.e. 67.6% more than in 2003.

During 2004, the Bank issued 140 payment guarantees (33% more than the year before). The value of the guarantees issued over the year amounted to USD 27.6 million, scoring a more than 3-fold increase over the 2003 level. 49 guarantees amounting to USD 16.4 million were issued under a collateral agreement.

Export L/C business was also dynamically developing in the year under review. A total of 190 L/Cs were issued, three times as many as in the previous year. Their value reached USD 173.4 million (45% growth on the year before).



CORRESPONDENT BANKING

In 2004, Belvnesheconombank continued to build up its correspondent banking relations with leading financial institutions in the CIS countries and beyond, and also domestic banks in order to secure the most favorable conditions for supporting its clients' international business and facilitating interbank transactions. To date, Belvnesheconombank has established correspondent banking relations with more than 600 banks from 81 countries across the world.

As of 1 January 2005, a total of 346 correspondent accounts were maintained, including 284 VOSTRO accounts and 62 NOSTRO accounts.

In 2004, 26 correspondent accounts were opened, including 21 VOSTRO and 5 NOSTRO accounts. NOSTRO accounts are held with such well-known and reliable banks as Deutsche Bank AG, Commerzbank AG, Dresdner Bank AG (Frankfurt/Main, Germany), Deutsche Bank Trust Company Americas (New York, USA), JP Morgan Chase Bank (New York, USA), Bank Austria Creditanstalt AG (Vienna, Austria), ING Bank NV (Amsterdam, the Netherlands), Credit Suisse (Zurich, Switzerland), Sberbank, Vneshtorgbank, International Moscow Bank (Moscow, Russia). NOSTRO accounts incoming payments totaled USD 4,413.0 million while outgoing payments amounted to USD 4,413.6 million, i.e. 11.4% more than in 2003.

For several years now, Belvnesheconombank has acted as a clearing bank handling BYR settlement transactions for non-resident banks in Belarus. As of 1 January 2005, 122 non-resident banks opened their accounts with Belvnesheconombank,

and their BYR account debit turnover in 2004 totaled BYR 2,111,334.0 million, i.e. 11.8% as much as during the previous year.

In 2004, Belvnesheconombank continued to provide clearing services to 28 domestic banks that effect settlements in EUR, USD and other freely convertible currencies through the Bank's correspondent accounts network.

While maintaining and expanding business relations with our key correspondent banks, in 2004 we placed emphasis on promoting business with new partner banks that offered the most advantageous terms and conditions to the Bank's clients with regard to foreign trade settlements and financing arrangements.

The Bank's capacity to attract finance from leading foreign banks outside and inside the CIS is an important indicator of its internationally recognized standing. 2004 witnessed an increase in clean documentary credit lines opened by foreign banks for Belvnesheconombank, including leading banks in Kazakhstan, Russia and the Baltic countries. The Bank also continued to promote documentary business cooperation with its long-standing partners in Europe and the U.S. that scaled up their credit lines in the past year.

Overall, the total value of uncovered documentary credit lines provided by foreign banks in 2004 increased by USD 10 million as compared with 2003 and exceeded USD 30 million.

CORPORATE BANKING

In 2004, the Bank focused its customer management policy on providing the broadest possible array of products and services to its customers with a special emphasis on the enlargement of forex transactions and international settlements, in parallel step with generating customer service efficiency and profitability by designing tailor-made solutions and technologies and putting in place comprehensive packages of services suited to individual customer needs.

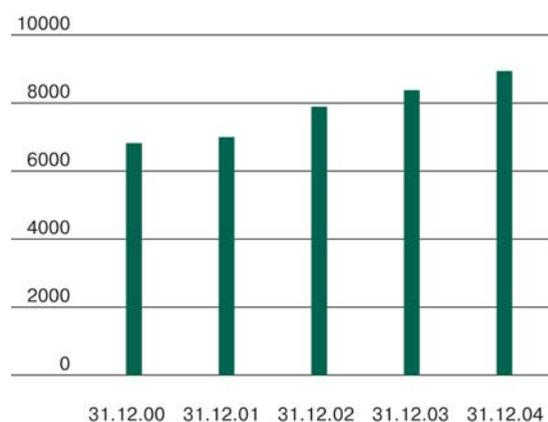
Implementation of a set of measures targeted on customer recruitment helped to increase the number of customers, both corporate entities and individual entrepreneurs, to 9000. The expansion of the customer base was achieved by drafting from among companies with an international trade focus and also dynamically developing businesses from the SME sector. Among the customers signed up in 2004 there is BelCel Joint Venture, Keramin-Urals Trading House Representative Office in Belarus (Russia), Pliva Hrvatska Representative Office (Croatia), Henkel Bautetechnik, Glubokoye Milk Cannery, etc.

Belvnesheconombank's corporate clientele includes the country's largest internationally active companies well-known across Belarus, such as:

- RUP Belarusian Steel Works
- OAO Khimvolokno-Mogilev
- OAO Mozyr Oil Refinery
- OAO Horizont
- RUP Minsk Automobile Plant
- RPUP Neman Tobacco Factory

- OAO Naftan Oil Refinery
- OAO Brest Dairy Plant
- RUP BelAZ
- ZAO Beltechexport
- RUP Belavtostrada
- ZAO Atlant
- GTPUP Belryba
- OAO Peleng
- PO Minsk Tractor Works
- RUP Avtogydrousilitel
- OAO Khimvolokno-Grodno
- RUP Rechitsa Metal Works
- OAO Borisov DOK
- ZAO Pinskdiv
- RUP Khimvolokno-Svetlogorsk
- PO Belarusian Automobile Plant
- SKP Obukhovo
- SKh KP Progress-Vertelishki
- OAO Lakokraska (Lida)
- OAO Krasny Pishchevik, etc.

Number of Corporate Customers



Among the Bank's customers there are 528 wholly and partially foreign-owned entities. The most fast-growing companies in this customer sector include:

- Minsk Furniture Center JV
- OAO Spartak JV
- ZAO Milavitsa JV
- Coca Cola Beverages Belorussiya Foreign Company
- McDonald's Restaurants Foreign Company
- OOO Belita JV
- OOO Agricultural Services JV
- IUPP Kashtan, affiliate of Intertapes Chestnut AG
- OOO Gatovo-Tannery JV
- OOO PP Polesye JV
- ZAO Testa JV and others.

The Bank continued to consistently promote already established long-term partnership rela-

tions with its corporate customers, always mindful of implementing the principle of providing a comprehensive range of services tailored to meet customer-specific needs in banking products and services. In order to improve customer service and satisfy the needs of its largest and dynamically developing corporate customers the Bank runs a personal manager service.

A set of practical measures was implemented in 2004 that made it possible to substantially improve corporate customer services. In the latter half of 2004, following structural reorganizations a customer service bloc was set up at the Bank's new office at 32 Myasnikova St., Minsk, and Minsk Central Branch began operating from the Bank's office at 10 Zaslavskaya St., Minsk. As a result, it allowed to generate an integrated provision of products and services and achieve overall customer management improvements.

MONEY AND FOREX MARKET OPERATIONS

Money Market

Money market operations were an important part of the Bank's business activities in the year under review both for generating returns on the investment portfolio and ensuring liquidity of the Bank's payments balance in national and foreign currencies. The Bank was an active player both in the domestic and international markets.

Over the year, average daily BYR loans in the interbank market amounted to BYR 9.8 billion (against BYR 9.4 billion in 2003), while the amount of daily BYR borrowings averaged BYR 28 billion (against BYR 17.2 billion the year before). A 1.6-fold increase in BYR borrowings was mostly due to the growth in non-resident bank funds that averaged BYR 23.5 billion a day (compared with BYR 14.4 billion in 2003). The Bank was also actively attracting BYR deposits from corporate entities. Their average daily placements amounted to BYR 2.3 billion (against BYR 1.8 billion the year before). Average interest rate paid on corporate BYR deposits was maintained on a par with the refinancing rate.

During the accounting year, there was an increase in average daily forex deposits with non-resident banks from USD 6.8 million to USD 7.9 million.

Corporate forex deposits remained to be an essential source of the Bank's foreign exchange resources. Their average daily volume grew 1.4 times to reach USD 23.4 million (against USD 16.6 million in the preceding year). Average interest rate paid on foreign exchange deposits was 7%.

Forex Market

In 2004, there was a considerable increase in forex trading at the stock and interbank markets. Average daily purchase amounted to USD 1308.8 thousand compared with USD 807.2 thousand in the previous year while daily sale deals reached USD 1201.2 million (USD 913.2 thousand in 2003). As a result, operating profit from customer forex trading rose 23.7%. The Bank was also active at conversion and swap transactions.

SECURITIES MARKET OPERATIONS

Government Bond Transactions

The amount of T-bills (GKO and GDO) purchased in the primary market in 2004 topped BYR 35.6 billion.

Over the year the volume of government bonds held by the Bank ranged from BYR 7 to 34 billion.

During the year under review, the Bank concluded 8 comprehensive service agency agreements on government bond market transactions, each of a 5-year duration. At present 38 customers of the Bank are registered with the Stock Exchange. In 2004 the amount of government bond transactions totaled BYR 301.3 billion.

In the past year the Bank disposed of its Eurobonds. The transaction proceeds of USD 364 thousand were posted to the Bank's income.

Eurobond transactions also generated a coupon income of USD 226.6 thousand.

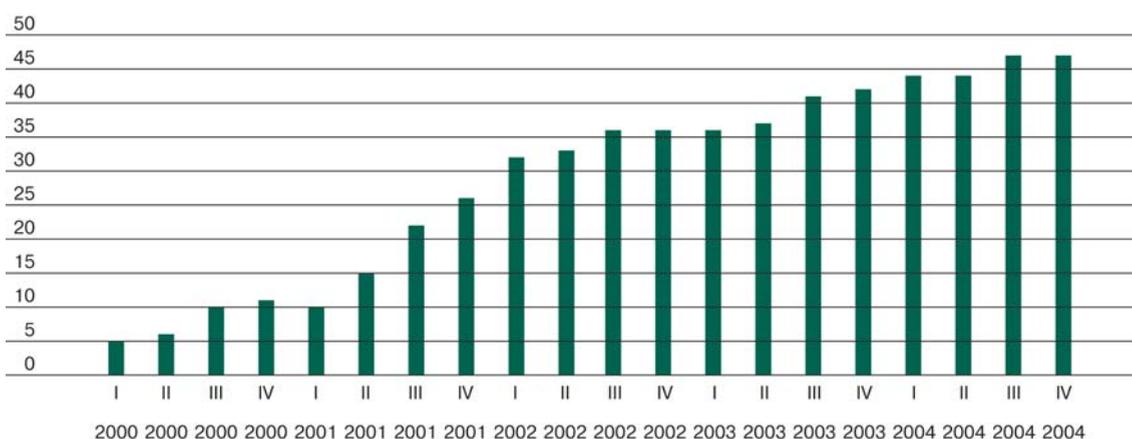
Transactions with Promissory Notes, Certificates of Deposit and Shares

During the accounting year the Bank was actively involved in performing transactions with promissory notes and certificates of deposit in both primary and secondary markets.

In 2004 Belvnesheconombank issued promissory notes with a total face value of BYR 26,678.0 million (including BYR 11,747.3 million worth of deferred-payment notes), EUR 37.9 thousand, RUR 5,135.8 thousand and USD 845.6 thousand (including USD 65.8 thousand worth of deferred-payment notes).

In the year under review the Bank also traded in promissory notes of commercial banks and non-

Number of Issuers Serviced by the Bank's Safe Custody, 2000-2004



banking sector corporate entities in the primary market and performed discounting and exchange transactions amounting to BYR 34,645.5 million and USD 2,035.8 thousand, earning BYR 498.9 million and USD 1.6 thousand in income respectively.

The Bank's investments in purchases of USD-denominated promissory notes of the National Bank of the Republic of Belarus totaled BYR 491.4 million and USD 895.8 thousand. The transactions yielded an income of over BYR 750 million.

In the accounting year the Bank issued certificates of deposit and savings certificates and performed primary market purchasing transactions with certificates of deposit of other domestic banks.

The Bank also traded in shares and provided services for the registration of OTC transactions.

Safe Custody Services

The Bank's safe custody provides accounting, registering and clearing services to securities holders.

The bulk of safe custody operations was represented by securities issued by the Ministry of Finance and the National Bank of the Republic of Belarus. In 2004 their total turnover in DEPO accounts reached around 8 million items.

As at January 1, 2005 the Bank's safe custody unit managed 72 DEPO accounts: 24 accounts of Belvnesheconombank's branches and 48 client accounts. A total of 11 safe custody service agreements were signed by the Bank in 2004. At present, the Bank's safe custody unit manages registers of 47 joint-stock companies, including Belvnesheconombank's register.

In all, over 60 thousand DEPO accounts are run by the Bank. Its branches also offer registering services to their customers.

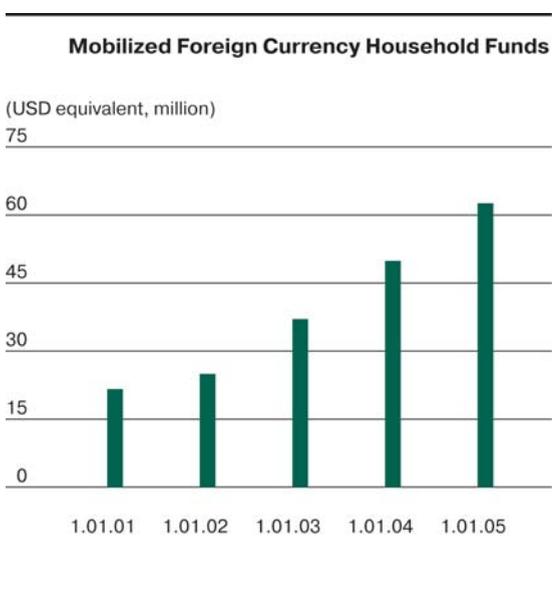
RETAIL BANKING

Individual customer banking is an important segment of Belvnesheconombank's business operations. Its stable positions in the retail market are secured by an extensive branch network, high quality of services available to the general public, a wide spectrum of products on offer and a customer-driven approach to the provision of services.

Cash Service

Belvnesheconombank renders a wide range of foreign cash exchange services to the general public, primarily purchase and sale of foreign cash. In 2004 the volume of cash purchases amounted to USD 82.1 million, while sales reached USD 83.9 million. Overall, these operations recorded a 16% increase.

In 2004 such foreign exchange operations as conversion, exchange, collection, and travelers' check transactions continued to be among the most sought-after services.



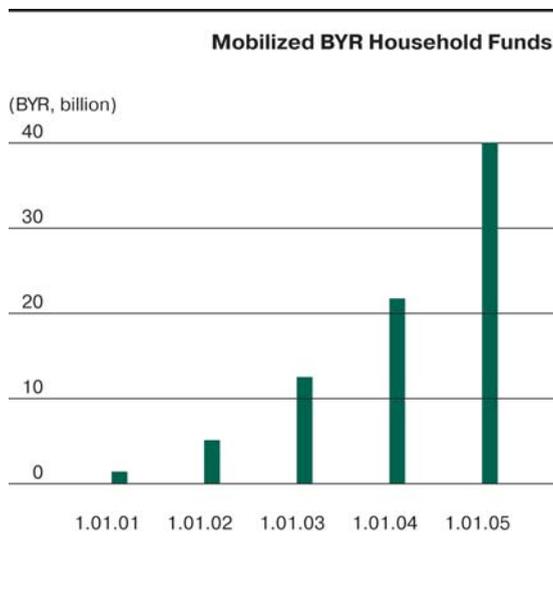
The Bank's clients receive the entire spectrum of cash services dispensed by our teller offices, cash-and-settlement centers and banking outlets. In an effort to provide greater access of the general public to its services, the Bank expanded the network of its outlets and cash-and-settlement centers catering to private customers. As at January 1, 2005 there were two centers of banking services, 23 exchange offices, 103 cash desks, 26 banking outlets and 9 cash-and-settlement centers.

Deposit Operations

During 2004 private customer funds constituted a stable source of building up the Bank's resource base which totaled BYR 608.2 billion as at January 1, 2005, recording a 16.9% increase. The share of private customer funds in the total increase of resources mobilized by the Bank reached 73.2% or BYR 47.2 billion. The share of private customer funds in the volume of mobilized resources increased from 28% on January 1, 2004 to reach 33.5% on January 1, 2005.

The Bank's reliability and flexible interest policy, introduction of new types of deposits on more attractive terms made it possible to build up private customer funds both in the national and foreign currencies to reach USD 62.3 million scoring almost a 1.3-fold increase. Over the past four years private customer funds in foreign currencies recorded a 2.8-fold increase.

National currency private customer funds recorded a 1.8-fold increase and as at January 1, 2005 amounted to BYR 40 billion scoring a 28.6 growth against 2000.



In 2004 the Bank offered its customers new types of deposits that make it possible to reduce customer losses in the event of prior termination of agreements and allow for deposit replenishment, partial withdrawal and automatic prolongation without entailing interest rate reduction, monthly interest capitalization, posting interest earned to cardholder accounts, etc.

In 2004 the Bank introduced four new types of deposits in BYR, three in USD and one in EUR. In July-September 2004, the Bank repeated its promotional action extending discounts for purchasing USD Maestro and Visa Electron cards. As a result, 670 cards were issued and funds in relevant cardholder accounts amounted to over USD 300,000.

During the year the Bank's Centers of Banking Services and its branches continued to sign up legal entities to participate in its bankcard-based payroll program that led to the growth of funds in relevant accounts with the Bank.

Lending Operations

As at January 1, 2005 private customer loans outstanding amounted to an equivalent of BYR 18.5 billion or 5.2% of the total customer debt against BYR 2.3 billion (0.8%) at the start of the year.

In 2004 the Bank extended loans to individuals for home building and purchasing purposes in the equivalent of BYR 5.6 billion against the BYR 987 million target set by the Council of Ministers and the National Bank in their Resolution No. 1737/29 of December 31, 2003.

One of the major lines of Belvnesheconombank's business aimed at raising the share of loans to individuals in the total volume of loans outstanding is bankcard-based lending. In 2002 the Bank was the first among the country's banks to start extending BYR bankcard-based loans to the general public. This lending option offered by nearly all of the Bank's branches, employs a revolving credit principle and is provided under the Bank's payroll program.

As at January 1, 2005 the Bank issued 1,682 credit cards having different credit facility limits amounting to BYR 3,002.8 million, of which the head office's share is 521 cards amounting to BYR 1,306 million and that of its branches is 1,161 cards amounting to BYR 1,696.8 million. Over the past year customer debt under bankcard-based loans rose 4.3 times to reach BYR 1,163.2 million as at January 1, 2005 against the year-start and that in the branch network amounted to BYR 724 million scoring a 7.2-fold growth. Over the year the applied average interest rate changed due to the refinancing rate decrease from 28%

down to 17% p.a. and also due to the mark-up reduction from 3 down to 1 percentage point.

Money Remittances

Belvnesheconombank is Western Union's only direct agent effecting international instant money transfers. Operating an extensive correspondent banking network, it has advantages over other banks of the country that it widely uses in providing Western Union products to customers of eleven commercial banks of Belarus, handling around one third of all Western Union's money transfers remitted by the country's banks. In the past year the Bank processed 51,768 money transfers amounting to USD 21 million. Over 2004, another 17 outlets handling Western Union instant money transfers were made operational. According to the assessment made by Western Union Company in 2004 the Bank's Center of Banking Services No. 1 and Gomel regional branch featured among the top 500 Western Union agents in the region of Europe, Africa and Asia (out of a total of 50 thousand agents operating in the region).

In 2004 the Bank started to render a new service through its Western Union system - RUR transfers from/to Russia ("Will Call"). In the accounting year the Bank handled 2,482 money transfers amounting to RUR 18.6 million. It also started to handle BYR instant money transfers through its branch network that amounted to over BYR 220 million.

However, following the issuance of Decree No. 24 of the President of the Republic of Belarus mandating registration of overseas money transfers as foreign grants (including those through

Western Union system) with the Department of Humanitarian Aid under the President's Administration Office there was an increase in the number of customer refusals to accept money remittances.

New Services

Belvnesheconombank has always given top priority to a continuous broadening of the range of services and banking products offered to its customers.

The past year saw an introduction of new and expansion of existing services.

Over the accounting year the Bank continued to perform bullion trading. Bullion sales totaled 9,186 grams. The Bank's 17 branches also offered this service to their customers. The concept of retail banking development in the Republic of Belarus in the period ending in 2010 envisages further introduction of new operations with precious metals.

The Bank also offers an option to holders of BYR bank cards to withdraw USD cash through its foreign cash desks, exchange offices and ATMs and CATs, as well as through those of its partners* and place USD and BYR funds on call deposits for holders of Belvnesheconombank cards through ATM and CAT network operated by the Bank and its partners.

* Belvnesheconombank's partners are OAO "Tekhnobank", ITI-Bank, ZAO "BelSwissBank". Fees are not charged on holders of debit cards (payroll and international ones) withdrawing cash through ATMs. Through CATs and ATMs operated by its partners the Bank furnishes its customers with the whole spectrum of additional services offered by its own ATMs and CATs

BANKCARD BUSINESS DEVELOPMENT

As a principal member of Visa and MasterCard international payment systems

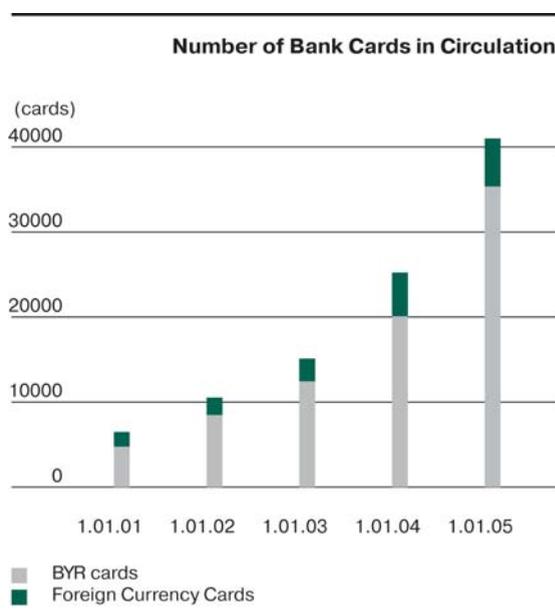
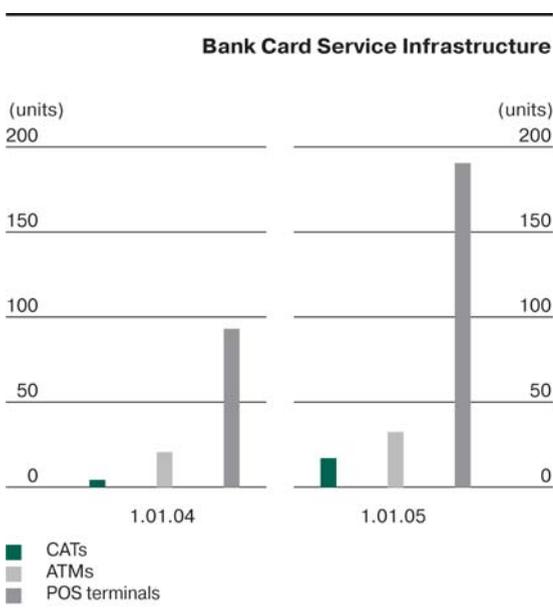
Belvnesheconombank continued to develop its acquiring business in line with its license mandate, expanding the network of retailers and service providers that accept Visa and MasterCard bankcards. Compared with 2003, the number of such merchants grew two times.

The Bank met all of the 2004 regional infrastructure development targets installing 14 CATs (108% against the plan), 97 POS terminals at merchant locations (176% against the plan) and 14 ATMs (127% against the plan). A total of BYR-denominated 35683 cards were issued with-in payroll programs scoring a 77-percent increase. In the meantime, the issuance of USD cards grew 31% making a total of 4710 cards over the year.

Domestic banks continued to choose

Belvnesheconombank as their sponsor bank for accession to the international payment systems. Over the past year, two more banks, Moscow-Minsk and BelSwissBank, launched their card issuance and service operations using Belvnesheconombank's organizational and technical support. Cooperation with other banks is beneficial not only in terms of offsetting costs arising from the participation in the international payment systems but also in terms of expanding customer services. Currently, the ATM network of the five partner banks (Belvnesheconombank, Technobank, ITI-Bank, Moscow-Minsk Bank and BelSwissBank) operates as a single whole providing the holders of cards issued by these banks with fee-free services including cash advancement.

Belvnesheconombank was the country's first bank to offer its customers, customers of its partner banks and other banks, members of the



MasterCard payment system, to settle their Beltelecom telephone bills via the Bank's ATMs and CATs.

To date, the ATM and CAT network of the Bank and its partner banks is capable of performing over twenty service options. Unlike other domestic banks, Belvnesheconombank's ATMs and CATs can handle any MasterCard card irrespective of the issuing bank.

In 2004, Belvnesheconombank pioneered Belarus' first cellular phone service, trade-marked Mobile Bank, that allows Belvnesheconombank's card

holders to access their accounts with the Bank by using their cellphone and pay their phone bills invoiced by MDS/Velcom, MTS and BelCel/Diallog cellular operators, settle their bills for utility services provided by the Minsk Public Utilities and Housing Services Administration, and also pay their CosmosTV bills. The number of the Bank's branches offering this service grew from 11 to 25 over the year under review.

In December 2005, the Bank participated in the 2nd TIBO DigiHome-2004 Fair and Exhibition and was awarded a diploma for the presentation of its Mobile Bank hi tech service.

BANKING TECHNOLOGIES

Modernization of the Bank's technical and technological base serves as a foundation for the creation and implementation of new banking products.

In 2004 the Bank developed and implemented new technological solutions and banking products making it possible to considerably broaden the spectrum of services and improve their quality.

As a result, it introduced the following innovations:

- further developed corporate computer-aided system based on EQUATION software product and AS/400 multiuser mainframe involving:
 - a change-over to a new version of OS/400 v.5.1 operating system;
 - completion of integration of the Bank's remote branches into its corporate IT system;
- created a unified technology for a straight-through processing of interbank payments in the IT environment;
- introduced a new software product for processing interbank settlement transactions (SPFI, etc.);
- developed new software products providing for computer-aided processing of credit operations and issued guarantees;
- improved reliability and performance of the Bank's head office computer network by installing high-performance facilities supporting multiple gigabit and 10-Gbps trunks and completing changing the network over to a new type;
- created an archive of electronic payment documents;
- developed a system providing for security, monitoring, servicing and administration of computers and other network facilities;
- expanded the network of ATMs and POS terminals;
- introduced new services for bankcard holders (Mobile Bank service, settling RUP Beltelecom telephone bills, etc.);
- introduced new Client-Bank banking service to conform to the applicable law;
- upgraded its computer fleet with due account for its functional and physical depreciation;
- upgraded special computer systems:
 - development and certification of Teller System, version 2.0+ application package on LSI2000 platform conforming to the new standard of the Republic of Belarus;
 - development and certification of Belvnesheconombank-Cash, version 1.0 application package on BM8003 platform developed by NII EVM Research Institute and conforming to a respective standard of the Republic of Belarus (to reduce costs and use higher-grade facilities);
 - installation of special-purpose computer systems at cash desks, exchange offices and other divisions;
- extended the list of payment recipients (Mobile Digital Communications joint venture, etc.);
- developed program systems to handle receipt, control and consolidation of banking reports;
- developed a system for generating reports for supervisory bodies;
- provided for an option to pay dividends to shareholders at all branches of the Bank;
- installed in-house developed software products at the Bank's branches (Payroll workstation, Overdue payments monitoring workstation, etc.);
- introduced new tools to effect operations to reduce costs and labor-consuming operations;
- introduced new services for the Bank's customers (gold bullion trading, etc.);
- developed a software application to maintain personified accounting;
- set up a database of in-house regulatory documents; and
- updated software applications to comply with applicable law amendments and changes in user requirements.

BRANCH NETWORK

The accounting year has been marked by a further consistent growth in the operating efficiency of Belvnesheconombank's branches, and qualitative improvements in meeting customer needs in modern, high tech banking products. As at 1 January 2005, Belvnesheconombank comprised 26 branches including 5 branches in regional capitals, 6 branches in Minsk and 15 branches in other urban areas across the country. In 2004, Belkoop branch in Minsk moved to a new business location and was renamed to Minsk Central Branch.

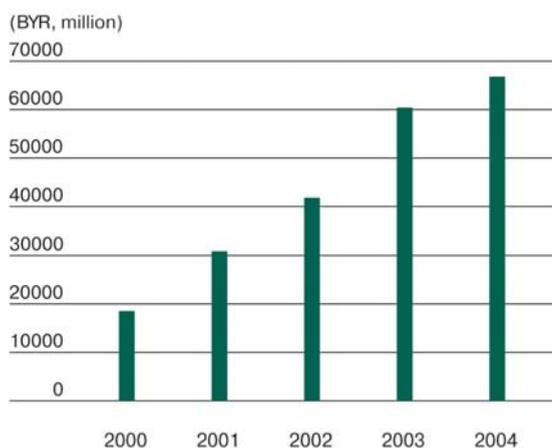
In 2004, in accordance with business plan targets major areas of the Bank's branch development were a steady increase in credit operations commensurate with a relevant build-up of the resource base, attainment of planned profit and cost-saving objectives, and provision of a comprehensive customer service based, among other things, on the introduction of competitive bank-

ing products and instruments. Top priority was given to a prompt supply of top-selling retail products and also to the development and rationalization of the network of banking outlets run by the Bank's branches.

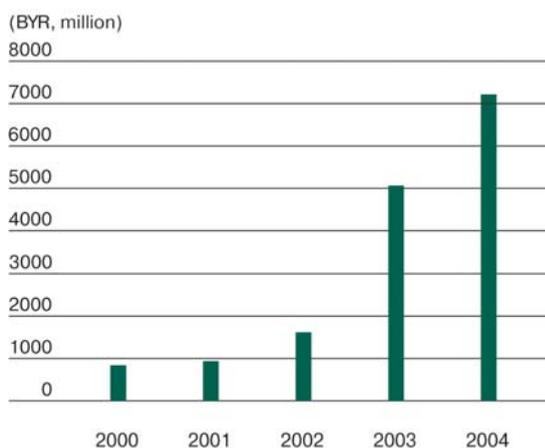
In 2004, the Bank's branches increased their income by 11%, generating 45% of the Bank's entire income. Faster growth of income over expenses yielded a profit of BYR 7.4 billion in absolute terms, thereby the previous year level was surpassed by 1.5 times. The share of the branch network in Belvnesheconombank's consolidated profit rose to 56% of the total. Profitability ratio reached 12.5% against 9.2% in 2003.

Over the year, the branches' own resource base grew more than 1.4 times. Owing to a successful implementation of the Bank's comprehensive program of attracting individual customer deposits,

Dynamics of Branch Network Income Growth, 2000-2004



Dynamics of Branch Network Profit Growth, 2000-2004



household accounts scored 1.5-fold increase. As at 1 January 2005, BYR household deposits reached 27.4 billion, while USD deposits amounted to 37.1 million. The branches account for 78% of all household accounts and 41% of funds placed therein.

In the year under review the volume of credit facilities extended by the branches to economic operators rose more than 1.2 times. The proportion of the loans issued and outstanding in the Bank's total loan portfolio reached 97% for BYR loans and 68% for foreign exchange loans.

The best performing branches were the regional branches in Vitebsk, Gomel and Mogilev, branch No. 2 in Minsk, and the branch in Mozyr. Branches in Borisov and Bobruisk likewise fared strongly and efficiently during the past year. Minsk branch No. 1 and Central Branch also achieved substantial qualitative operating progress.

In the accounting year, the most dynamically developing segment of the branches' operations was the provision of services to the most numerous group of clients - the private clients. There was a considerable expansion in the array of payment options available to the general public via cash desks, cardholder activated terminals and ATMs, operated by regional branches. Holders of Belvnesheconombank-issued BYR bank cards can receive USD cash at foreign exchange cash desks and via ATMs operated by the Bank and its partners, and place funds from their card accounts in BYR and USD call deposits using the technological payment facilities run by

Belvnesheconombank and its partner banks. In the year under review the total volume of household loans extended by the branches grew more than 9 times and that of loans extended under BYR personal bank card credit lines rose more than 7 times. In 2004, the branches started gold bullion trading operations. The continuing expansion of off-sight retail outlets and their optimal composition allowed the branches to make their products more accessible and attractive to potential customers in the corporate sector and among the general public. As at 1 January 2005, the branch network ran a total 10 of cash-and-settlement centers and 26 outlets.

Considerable and stable improvements in key business areas attained by Belvnesheconombank's branches enhanced its reputation in the country's regions as a reliable partner and versatile lending institution capable to fully meet the requirements of large corporate customers in advanced banking products, as well as to provide an optimum mix of retail services to each potential private customer.

As a result, the Bank provides a targeted, expeditious and flexible financing of both the country's core industries and SME innovation projects, and delivers on-going lending service to entrepreneurs and the general public to satisfy their needs.

FOREIGN REPRESENTATIVE OFFICES

Belvnesheconombank runs foreign representative offices in Russia (Moscow) and Poland (Warsaw) with the latter also reaching into the Czech Republic and Slovakia.

Our foreign representative offices are primarily focusing on assisting the Bank, its shareholders, existing and potential clients, in promoting their business by providing counseling and liaison services and expanding their sales market niche in Russia and Poland. Much attention is also given to raising funds for joint investment and trade projects of Belarusian companies and their local counterparts.

Over the accounting year, as a result of joint efforts undertaken by the foreign representative offices and the Bank's International Department to strengthen cooperation with key Polish and Russian banks:

- over USD 2.5 million worth of L/Cs with customer post-financing option were confirmed;

- several tender guarantees issued by Belvnesheconombank were advised;
- limits set by Polish banks for Belvnesheconombank's settlement transactions rose by EUR 1 million and USD 1.3 million.

In 2004, cooperation agreements were signed with two major Polish companies, KTS Elpom Sp. z O.O. and Aurex LPG Sp. z O.O, to facilitate export-import transactions between these Polish companies and their Belarusian partners.

Given the paramount importance attached by the Bank to assisting its customers in foreign markets and strengthening cooperation with leading foreign banks and the tasks set for the domestic banking industry by the Belarus government to mobilize foreign investments for financing the country's real sector of the economy, the foreign representative offices will be targeted on further broadening of their operations in the forthcoming year.

BELVNESHECONOMBANK SUBSIDIARIES AND ASSOCIATED COMPANY

As at 1 January 2005, Belvnesheconombank's equity investments totaled BYR 228.3 million and covered 16 legal entities, including BYR 101.3 million invested in its subsidiaries and associated company. To date, the Bank's subsidiaries include Belvneshstrakh Insurance Company (wholly owned by the Bank), Belinterfinance Closed Joint Stock Company (51-percent equity stake), Interbranch Institute for Independent Expertise of Investment Projects Closed Joint Stock Company (52%), Vneshstroyinvest (51%) and Vnesheconomstroy (51%) Commercial Open Joint Stock Ventures. The Bank's associated company is Interecon-N Closed Joint Stock Company (10%).

During 2004, the Bank's subsidiaries pursued the lines of business as defined by their Articles of Association and business development strategies.

In spite of adverse changes in the law regulating insurance business in Belarus, Belvneshstrakh Insurance Company ranked among the leading insurance enterprises of Belarus in terms of its 2004 performance. In the past year, the company concluded 12,762 insurance contracts, its paid-in premiums totaled BYR 4,459.6 million, while its earnings amounted to BYR 6,634.4 million yielding a book profit of BYR 706.5 million.

The management of Belvneshstrakh Insurance Company is taking active steps to expand the spectrum of insurance services, enlarge the customer base, develop and apply new types of insurance instruments, improve methods and procedures of settling insured events, further pro-

mote reinsurance business, conduct investment market research in Belarus with a view to effectively placing its own and insurance reserve funds.

In 2004, Belinterfinance actively pursued its agricultural line of business. Avangard, an unprofitable farming enterprise in Kletsk District, Minsk Region, was transformed into Orda Agricultural Firm. The company is expanding the volume of its services supplying agricultural machinery and spare parts to domestic farms. In 2004, the company's earnings from the sale of its products and services amounted to BYR 4,225.5 million, while its book profit was recorded at BYR 458.0 million.

In the past year, Vneshstroyinvest and Vnesheconomstroy completed the construction of a sporting and fitness facility and Vnesheconomstroy began its commercial operation under the trademark of Mir Fitnessa/World of Fitness. The company is taking steps to increase the facility's profit-making capacity by conducting a concerted marketing campaign, expanding the range of services, and implementing a flexible pricing policy. In the meantime, Vnesheconomstroy will be primarily engaged in the construction of a multifunctional housing and office complex in Minsk. In 2004, Vneshstroyinvest and Vnesheconomstroy total earnings from the sale of their products and services amounted to BYR 2,098.7 million and BYR 89.9 million respectively.

According to the Articles of Association of the Interbranch Institute for Independent Expertise of

Investment Projects, it is primarily engaged in providing counseling services. In 2004, pursuant to agreements concluded with enterprises of various industries and forms of ownership, the Institute completed the development and appraisal of 13 business plans of investment projects, including those intended for Belamkan Limited Liability Joint Venture, Minsk Heating Equipment Works, Bobruisk Meat-Packing Plant and Belvnesheconombank. The Institute's receipts in 2004 amounted to BYR 64.4 million, however, it had no year-end profit.

In 2004, Interecon-N, the Bank's associated company, pursued the lines of business as defined by its Articles of Association. In the past year, the company's earnings from all of its activities amounted to BYR 691.9 million, with much of its income generated by the Severny market complex in Bobruisk, constructed and operated by the company. As at 1 January 2005, Interecon-N's book profit was recorded at BYR 73.3 million. In 2005 the company will continue to develop the market complex with a view to increasing earnings and ensuring a timely loan repayment to the Bank.

HUMAN RESOURCES DEVELOPMENT

As at 1 January 2005, Belvnesheconombank's staff comprised 2267 employees, including 919 working in the head office and 1348 - in the Bank's branches. Employees under the age of 40 make up 61.5% of the total workforce. All mission-critical divisions of the Bank are 100% staffed by managers and specialists with a relevant university-level educational background.

The Bank offers each employee a variety of opportunities to raise his/her skills and advance professionally. The centerpiece of our staff training and development policy in 2004 was to provide a flexible combination of a broad theoretical grounding and an acquisition of in-depth specialized knowledge by concentrating on the following key directions of staff development:

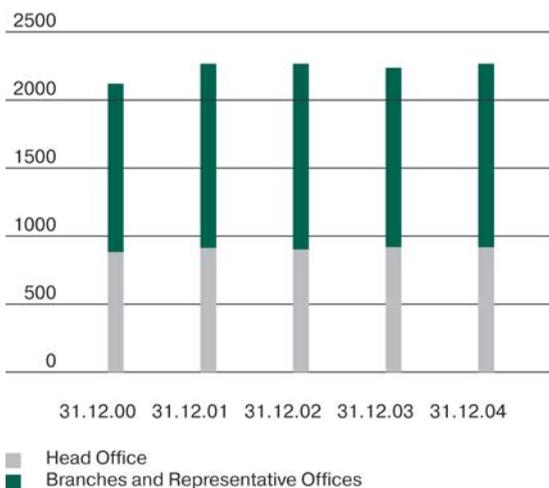
- raising professional competencies;
- university and college-level education programs; and

- raising foreign-language proficiency.

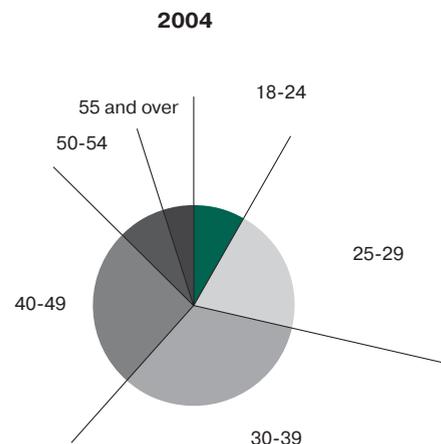
Over the year, the Bank ran 22 in-house workshops for regional branch staff attended by 470 employees. 119 staff attended off-site workshops and skills upgrading programs, including 53 workshops and trainee programs abroad.

Both the Bank's head office and branches have in place a system of rigorous pre-employment screening of job applicants and evaluating the aptitude of regular staff members contemplated for promotion to a higher position. In this context, a number of trainee programs were designed for specialists nominated to managerial positions as well as for branch employees. In 2004, 17 staff completed such programs and raised their professional competencies in various divisions of the Bank.

Staff Dynamics



Staff Age Profile



82 staff members attended university and college-level programs with 32 of them pursuing a second university degree. In the past year, 49 staff completed their course of studies and earned relevant academic credentials.

Traditionally, top priority was given to promoting foreign language proficiency. In 2004, 74 staff members attended foreign language programs. Regular tests of staff foreign language proficiency are run by a permanent commission set up in the Bank.

Belvnesheconombank actively cooperated with educational establishments. In 2004, various divisions of the Bank provided on-the-job training to 82 undergraduate students from Belarusian State Economic University, Belarusian State

University, Belarusian State University of Informatics and Radioelectronics, Academy of Management under the Republic of Belarus Presidency, Pinsk Banking College, etc.

The Bank continued to streamline its organizational and staffing structure. In order to ensure a greater coordination in lending operations, the Lending Department was reorganized into the Credit Risk Management Department and incorporated the Collateral and Economic Appraisal Division. A 'customer-serving bloc' was set up consisting of the Corporate Customer Service Department and the Department of Banking Services to act as an integrated customer service provider. A new organizational chart of the International Department was approved.

COMMUNITY SUPPORT AND SPONSORSHIP

In the past year Belvnesheconombank continued to support a wide array of charity programs, including cultural and sporting events.

Financial support was provided to the Minsk Executive Committee to stage the Davis Cup World Group match between Belarus and Russia national tennis teams, Ice Hockey Federation of the Republic of Belarus to hold the IIHF U18 World Ice-Hockey Championship in Minsk, Belarusian Biathlon Federation, FC Spartak in the city of Shklov for the club development, St. Cyril and Methodius Christian Educational Center, and the Belarusian Exarchate to renovate the Church of the Transfiguration of the Savior.

As before, the Bank continued to provide financial aid to health care institutions with major beneficiaries being the Masherov Republican Hospital for War Veterans and the Aleksandrov Cancer and Medical Radiology Research Institute.

During the accounting year the Bank made financial donations to charity funds, voluntary and professional unions such as the Eleos City Charity Fund, Traffic Safety Civic Association (CA), Belarusian Literary Fund CA, Republican Civic Association of Veterans, Belarusian Federation of Fire-Fighting Sports, Belarus Paralympic Committee.

In 2004, the Bank also extended assistance to Specialized Boarding School No. 10 in Minsk to purchase New Year gifts and Secondary School No. 41 on account of its 50th anniversary.

As every year in the past, the Bank maintained its traditional support for the agricultural sector. In 2004, the Bank financed the purchase of a Belarus-1221 tractor to award top-performing Zakozelsky Pedigree Livestock Breeding Farm at the Dazhynki -2004 National Harvesting Fair and Folk Festival. Financial help was also given to Orda agrifarm in Kletsk District, Minsk Region, to purchase agricultural machinery and to Nadezhny Farming Production Cooperative, Kalinkovichi District, Gomel Region, to procure diesel fuel.

The amount of donations made by the Bank's head office in 2004 for community support and charitable objects totaled BYR 217 611 038. However, its charitable activity was not confined to the metropolitan area. Its branches also devoted considerable attention to promoting community support in the areas of their operations. The amount of donations made by the Bank's branches in 2004 totaled BYR 82 485 800.

2005 BUSINESS HIGHLIGHTS

In 2005 the Bank will continue to pursue its top-priority lines of business focused on foreign trade facilitation and further customer import-export service improvements by providing a wide and competitive spectrum of banking products complying with international standards and requirements.

In order to enhance its market position, strengthen its reliability and financial soundness, and to attain the targets set forth by the 2005 Monetary Policy Guidelines of the Republic of Belarus, Concept of Belarus Banking Sector Development, Belvnesheconombank Institutional Building Program, 2001-2010, and its 2005 business plan, it is planned to:

- enhance its Tier 1 and Tier 2 capitalization by mobilizing funds from a strategic investor and securing a long-term subordinated loan;
- implement key customer management policy targets in order to secure a dynamic enlargement of the customer base through providing a wide range of advanced competitive products and services;
- build up its resource base and customer loan portfolio, primarily by targeting borrowers from the export-oriented and import-substituting industries, and the SME sector;
- retain the attained loan portfolio quality, and take measures to recover bad loans, including those recognized in the off-balance accounts;
- bring its large per-borrower credit risk exposures to a level not exceeding the existing regulatory requirements;
- tighten checks and controls over banking business risks by putting in place an integrated risk management system, improving its in-house regulatory manuals and instructions, introducing computer-aided computation of economic indicators, exercising on-line monitoring of compliance with prescribed regulatory banking standards and thereby institute a comprehensive banking controlling system;
- build up household borrowings, enlarge the share of BYR term deposits in its resource base by introducing new types of deposits, applying flexible interest rates and carrying out concerted public-awareness promotional campaigns;
- ensure compliance with major indicative projections set forth in regional programs of developing banking settlement systems by improving customer selection for implementing payroll project technologies, and furnishing bankcard holders with a comprehensive range of services; and
- step up work to streamline the Bank's organizational structure, including its branch network.

FINANCIAL REPORT

BALANCE SHEET as at January 1, 2005

Belvnesheconombank, 32, Myasnikova St., Minsk

(BYR million)

Reference	Items	2003	2004
ASSETS			
1101	Cash	15 694.3	20 433.7
1102	Precious metals	2 796.7	3 153.3
1103	Due from the National Bank of the Republic of Belarus	28 316.8	33 327.6
1104	Government securities, securities of the National Bank of the Republic of Belarus	36 447.0	7 526.2
1105	Other trading securities (available for sale)	4 283.8	2 406.2
1106	Due from other banks and loans and advances to other banks	123 207.7	128 731.2
1107	Loans and advances to clients	268 117.1	355 385.1
1108	Investment securities	210.7	228.3
1109	Fixed and intangible assets	35 952.9	48 042.1
11010	Other assets	19 317.5	23 031.8
110	TOTAL ASSETS	534 344.5	622 265.5
LIABILITIES			
1201	Precious metals	2 758.5	3 055.9
1202	Due to the National Bank of the Republic of Belarus	2 936.1	540.6
1203	Loans from the Government		0.0
1204	Due to other banks	90 545.3	86 588.1
1205	Due to clients	357 268.2	419 529.4
1206	Securities issued by the Bank	4 355.7	950.0
1207	Other liabilities	19 605.2	32 209.7
120	TOTAL LIABILITIES	477 469.0	542 873.7
CAPITAL			
1211	Authorized capital	17 136.3	24 131.2
1212	Issuance difference	0.0	0.0
1213	Reserve fund	8 949.8	10 288.5
1214	Retained profit	6 933.0	15 263.6
1215	Balance sheet items revaluation fund	23 856.4	29 708.5
121	Total capital	56 875.5	79 391.8
12	TOTAL LIABILITIES AND CAPITAL	534 344.5	622 265.5

Reference	Items	2003	2004
OFF-BALANCE SHEET ITEMS			
1301	Performance guarantees issued	37 572.0	71 876.5
1302	Performance guarantees received	56 422.2	93 124.9
1303	Commitments under individual financing arrangements issued	66 899.9	85 488.2
1304	Commitments under individual financing arrangements received	19 013.4	0.0
1305	Off-balance sheet debt	75 647.4	71 281.5
1306	Securities due for delivery	1 269.5	3 624.2
1307	Securities due to be received	3 381.4	6 647.2
1308	Commitments arising from forex and precious metal sale	6 712.6	0.0
1309	Commitments arising from forex and precious metal purchase	6 708.3	0.0
13010	Options purchased	0.0	0.0
13011	Options sold	0.0	0.0
13012	Assets pledged by the Bank	23.8	0.0
13013	Assets pledged to the Bank	809 534.1	870 223.8
13014	Commitments arising from loans advanced	51 192.7	27 535.3
13015	Client securities	0.0	0.0
13016	Securities portfolio	25 173.2	3 428.7
13017	Other funds, items of value and instruments	1 712 448.1	441 848.2
13	TOTAL OFF-BALANCE SHEET ITEMS	2 871 998.6	1 675 078.5

Georgy Egorov
Chairman of the Board

Zinaida Kushnerova
Chief Accountant



PROFIT AND LOSS ACCOUNT as at January 1, 2005

Belvnesheconombank, 32, Myasnikova St., Minsk

BYR million

Reference	Items	2003	2004
2011	Interest income	54 207.0	52 006.4
2012	Interest expense	31 666.3	30 159.6
201	Net interest income	22 540.7	21 846.8
2021	Fee and commission income	24 192.3	30 565.8
2022	Fee and commission expense	1 550.1	1 782.1
202	Net fee and commission income	22 642.2	28 783.7
2031	Net foreign exchange gain	23 583.8	7 118.5
2032	Net gain from trading securities (available for sale)	3 353.2	-1 049.2
2033	Net gain from investment securities	0.0	0.0
2034	Dividend income	5.0	23.9
2035	Other operating income	2 649.2	9 068.7
203	TOTAL INCOME	29 591.2	15 161.9
2041	Net allowance for asset loss	20 645.8	-2 328.3
20	Total income less net allowance for asset loss	54 128.3	68 120.7
2101	Total administrative expense	34 054.1	40 568.9
2102	Depreciation	2 140.3	2 859.2
2103	Other operating expense	7 310.9	9 210.6
21	TOTAL EXPENSES	43 505.3	52 638.7
22	Income tax	1 330.5	2 095.7
	PROFIT (LOSS) OF THE REPORTING YEAR	9 292.5	13 386.3
	Basic earnings per ordinary share (BYR)	54	78
	Diluted earnings per ordinary share	-	-

Georgy Egorov
Chairman of the Board

Zinaida Kushnerova
Chief Accountant



STATEMENT OF CHANGES IN CAPITAL, 2004

Belvnesheconombank, 32, Myasnikova St., Minsk

(BYR million)

Indicators	Reference	Capital category					Total capital (total of sections 3-7)
		Authorized capital	Issuance difference	Reserve fund	Retained profit	Balance sheet items revaluation fund	
Opening balance	3011	17136.3		8949.8	6933.0	23856.4	56875.5
Change in capital for the year: profit for the year (loss shown with minus sign)	30121	0	0	0	13386.3	0	13386.3
Profit appropriated for fund replenishment	30122		0	1338.7	-1338.7	0	-
Dividend payment	30123	0	0	0	-3717.0	0	-3717.0
Founders' (members') contributions to the authorized fund	30124	7000.0		0	0	0	7000.0
Revaluation of balance sheet items	30125	0	0	0	0	6766.2***	6766.2
Redistribution between capital items	30126						0
Other changes	30127	-5.1*				-914.1**	-919.2
Total changes in the capital for the year	3012	6994.9		1338.7	8330.6	5852.1	22516.3
Closing balance	3013	24131.2		10288.5	15263.6	29708.5	79391.8

* treasury shares

** substitution of foreign exchange component by BYR - BYR 913.6 million
additional depreciation revaluation entry for 2003 - BYR 0.5 million

*** revaluation of fixed assets - BYR 6560.2 million
revaluation of assets under construction - BYR 196.5 million
revaluation of foreign exchange in the bank's funds - BYR 9.5 million

Georgy Egorov
Chairman of the Board

Zinaida Kushnerova
Chief Accountant



STATEMENT OF CASH FLOWS AS AT JANUARY 1, 2005

Belvnesheconombank, 32, Myasnikova St., Minsk

(BYR million)

Reference	Items	2003	2004
Cash flows from operating activity			
7010	interest income received	54 206.3	51 906.2
7011	interest expense paid	-30 913.9	-29 087.1
7012	fee and commission income received	24 190.8	30 509.9
7013	fee and commission expense paid	-1 556.6	-1 780.2
7014	other income from forex operations	6 022.2	7 118.0
7015	other income from operations with trading securities	3 353.0	-1 049.6
7016	dividend income	5.0	23.9
7017	other operating income received	2 439.2	7 216.5
7018	other operating expense paid	-39 342.8	-47 901.0
7019	income tax paid	-1 334.4	-2 763.0
701	Cash profit (loss) prior to changes in operating assets and liabilities	17 068.8	14 193.6
Cash flows from changes in operating assets:			
7021	net decrease (increase) in precious metals	-2 799.1	-454.1
7022	net decrease (increase) in cash with National Bank	-3 117.6	-5 012.9
7023	net decrease (increase) in cash in governmental and National Bank securities	9 826.0	28 946.2
7024	net decrease (increase) in cash in other trading securities	3 726.5	4 887.9
7025	net decrease (increase) in cash with other banks (including loans to other banks)	20 051.4	-3 779.3

7026	net decrease (increase) in customer loans	-24 506.6	-82 288.0
7027	net decrease (increase) in cash in other operating assets	4 284.5	-26.1
702	Cash flows from changes in operating assets	7 465.1	-57 726.4
Cash flows from changes in operating liabilities:			
7031	net increase (decrease) in precious metals	2 760.9	394.8
7032	net increase (decrease) in cash from National Bank	-2 363.0	-2 411.7
7033	net increase (decrease) in loans from Belarus government	0.0	0.0
7034	net increase (decrease) in loans from other banks	-62 330.5	-4 702.3
7035	net increase (decrease) in customer accounts	73 056.6	55 043.3
7036	net increase (decrease) in cash from issuance of own securities	-4 226.5	-3 405.0
7037	net increase (decrease) in cash in other operating liabilities	-8 327.8	9 696.4
703	Cash flows from changes in operating liabilities	-1 430.3	54 615.5
70	Net cash flow received from (used in) operating activities	23 103.6	11 082.7
Cash flows from investment activities:			
7111	Purchase of fixed, intangible and other long-term assets	-10 665.8	-12 002.9
7112	Proceeds from sale of fixed, intangible and other long-term assets	1 592.7	476.7
7113	Purchase of investment securities	-23.1	-17.6

7114	Proceeds from sale of investment securities	0.0	0.0
7115	Acquisition of subsidiaries and structural units		
7116	Proceeds from sale of subsidiaries and structural units		
71	Net cash flow received from (used in) investment activities	-9 096.2	-11 543.8
Cash flows from financing activities:			
7211	Share issuance		7 000.0
7212	Purchase of treasury shares	-5.2	-5.0
7213	Sale of previously purchased treasury shares	0.0	0.0
7214	Dividend distribution	0.0	-3 695.3
72	Net cash flow received from (used in) financing activities	-5.2	3 299.7
73	Effect of exchange rate on cash and cash equivalents	3 444.2	1 018.4
74	Net increase (decrease) in cash and cash equivalents	17 446.4	3 857.0
740	Cash and cash equivalents at the start of the period	40 072.4	
741	Cash and cash equivalents at the close of the period		43 929.4

Georgy Egorov
Chairman of the Board

Zinaida Kushnerova
Chief Accountant



OPEN JOINT STOCK COMPANY
“BELVNESHECONOMBANK”

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS
Year Ended 31 December 2004

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Open Joint Stock Company "Belvnesheconombank" ("the Bank") as of 31 December 2004 and the related profit and loss account and statements of cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 3, these financial statements do not reflect the consolidation of the financial statements of the subsidiary companies. In our opinion, this represents a departure from International Accounting Standard 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", which require financial statements of subsidiaries to be consolidated. As the financial statements of the subsidiary companies have not been prepared in accordance with International Financial Reporting Standards, the effect of consolidation on the Bank's financial statements could not be assessed reliably and could be significant.

In our opinion, except for the effect of any adjustments, as might have been determined necessary based on the fact described in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Without additionally qualifying our opinion, we draw attention to Note 33, describing the fact that at present there is an economic uncertainty in the Republic of Belarus.



30 March 2005

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

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

	Notes	2004	2003 (restated)
Interest income	4,29	54,137	59,399
Interest expense	4,29	<u>(32,278)</u>	<u>(40,198)</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		21,859	19,201
Provision for loan losses	5	<u>(6,860)</u>	<u>(7,399)</u>
NET INTEREST INCOME		<u>14,999</u>	<u>11,802</u>
Net gain on securities held for trading	6	7,026	7,847
Net gain on foreign exchange operations		7,650	10,875
Fees and commission income	7,29	30,179	30,556
Fees and commission expense	7,29	(1,904)	(1,955)
Net gain on investment securities	8	307	4,806
Reversal of impairment loss on fixed assets	18	-	12,822
Other income	10,29	<u>6,573</u>	<u>3,329</u>
NET NON-INTEREST INCOME		<u>49,831</u>	<u>68,280</u>
OPERATING INCOME		64,830	80,082
OPERATING EXPENSES	9,29	<u>(59,034)</u>	<u>(76,985)</u>
OPERATING PROFIT		5,796	3,097
Provision for losses on other transactions	5	<u>(1,343)</u>	<u>(1,364)</u>
PROFIT BEFORE INCOME TAXES AND LOSS ON NET MONETARY POSITION		4,453	1,733
Loss on net monetary position due to inflation effect		<u>(1,767)</u>	<u>(407)</u>
PROFIT BEFORE INCOME TAXES		2,686	1,326
Recovery of income tax expense/ (income tax expense) including recovery of deferred taxes	11	<u>4,798</u>	<u>(3,604)</u>
NET PROFIT/(LOSS)		<u><u>7,484</u></u>	<u><u>(2,278)</u></u>

On behalf of the Management



Chairman



Chief Accountant

The notes on pages 7 to 46 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

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

	Notes	2004	2003 (restated)
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	12,29	56,852	53,471
Precious metals		97	43
Loans and advances to banks, less allowance for loan losses	13,29	116,709	122,902
Securities held for trading	14	10,088	18,238
Securities purchased under agreements to resell	15	-	1,247
Loans and advances to customers, less allowance for loan losses	16,29	348,919	305,069
Investment securities, less allowance for impairment	17,29	7,862	36,019
Fixed and intangible assets, less accumulated depreciation	18	69,490	67,504
Other assets, less allowance for losses	19	9,347	8,532
TOTAL ASSETS		619,364	613,025
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Due to the National Bank of the Republic of Belarus	20,29	541	3,361
Loans and advances from banks	21,29	86,666	91,037
Securities sold under agreements to repurchase	22	3,036	3,435
Government loans		20	23
Customer accounts	23,29	425,647	413,739
Debt securities issued	24	847	4,983
Provisions	25,29	3,905	1,923
Deferred income tax liabilities	11	4,592	11,392
Other liabilities	26	3,903	3,451
Total liabilities		529,157	533,344
SHAREHOLDERS' EQUITY:			
Share capital	27	210,136	202,989
Treasury stock		(35)	(30)
Accumulated deficit		(119,894)	(123,278)
Total shareholders' equity		90,207	79,681
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		619,364	613,025
FINANCIAL COMMITMENTS AND CONTINGENCIES	28,29	305,795	283,354

On behalf of the Management



Chairman



Chief Accountant

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

(in millions of Belarusian Roubles)

	Share capital	Treasury stock	Accumulated deficit	Revaluation reserve	Total shareholders' equity
31 December 2002	202,989	(24)	(121,000)	-	81,965
Net loss	-	-	(2,278)	-	(2,278)
Purchase of treasury shares	-	(6)	-	-	(6)
Revaluation of office building, net of deferred tax	-	-	-	1,905	1,905
31 December 2003	202,989	(30)	(123,278)	1,905	81,586
Effect of restatement for error in accounting policy (Note 3)	-	-	-	(1,905)	(1,905)
31 December 2003 (as restated)	202,989	(30)	(123,278)	-	79,681
Share capital increase	7,147	-	-	-	7,147
Net profit	-	-	7,484	-	7,484
Purchase of treasury shares	-	(5)	-	-	(5)
Dividends for 2003 declared and paid	-	-	(4,100)	-	(4,100)
31 December 2004	<u>210,136</u>	<u>(35)</u>	<u>(119,894)</u>	<u>-</u>	<u>90,207</u>

On behalf of the Management



Chairman



Chief Accountant

The notes on pages 7 to 46 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

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

	2004	2003 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes and loss on net monetary position	4,453	1,733
Adjustments for:		
Provision for loan losses	6,860	7,399
Recovery of provision for impairment of investments	(1,158)	-
Provision for losses on other transactions	2,501	1,364
Fair value adjustment on securities available for sale	(68)	(1,525)
Reversal of impairment loss on fixed assets	-	(12,822)
Impairment loss on computer equipment	-	10,069
Depreciation charge on fixed and intangible assets	6,292	9,810
Loss on disposal of fixed assets	68	2,121
Net change in interest accruals	(455)	1,945
Cash flow from operating activities before changes in operating assets and liabilities	18,493	20,094
Changes in operating assets and liabilities		
(Increase) /decrease in operating assets:		
Minimum reserve deposit with the National Bank of the Republic of Belarus	(987)	1,523
Loans and advances to banks	(4,569)	50,907
Loans and advances to customers	(48,378)	5,333
Securities purchased under agreements to resell	1,247	28,996
Securities available for sale	29,582	14,624
Other assets	(1,482)	1,001
Increase/(decrease) in operating liabilities:		
Deposits from banks	(7,160)	(118,506)
Customer accounts	11,851	47,267
Securities sold under agreements to repurchase	(418)	(1,374)
Other liabilities	(1,985)	122
Cash (outflow)/ inflow from operating activities before income taxes	(3,806)	49,987
Income taxes paid	(568)	(1,573)
Net cash (outflow)/ inflow from operating activities	(4,374)	48,414
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed and intangible assets	(5,538)	(10,762)
Proceeds on sale of fixed and intangible assets	269	2,299
Investments in subsidiaries	(15)	(24)
Net cash outflows from investing activities	(5,284)	(8,487)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of ordinary share capital	7,147	-
Purchase of treasury shares	(5)	(6)
Dividends paid	(4,100)	-
Repayment of debt securities issued, net	(4,139)	(7,172)
Net cash outflows from financing activities	(1,097)	(7,178)

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

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

	Notes	2004	2003
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(10,755)	32,749
INFLATION EFFECT ON CASH (INCLUDING CHANGE IN VALUATION ALLOWANCES)		(6,009)	(9,835)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	12	<u>72,218</u>	<u>49,304</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	12	<u>55,454</u>	<u>72,218</u>

Interest paid and received by the Bank in cash during the year ended 31 December 2004 amounted to BYR 32,230 million and BYR 53,637 million, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to BYR 40,912 million and BYR 62,065 million, respectively.

On behalf of the Management



Chairman



Chief Accountant

The notes on pages 7 to 46 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OPEN JOINT STOCK COMPANY "BELVNESHECONOMBANK"

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

1. ORGANISATION

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 32 Myasnikova Str., 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 credit, transferring payments and exchanging foreign currencies upon demand of its customers and for currency trading purposes. The Bank has general and other special banking licenses, which allow it to maintain accounts and attract demand and time deposits from individuals and corporate customers, carry out transactions with precious metals and operations with securities.

The Bank has 26 branches in Belarus and representative offices in Moscow (Russia) and Warsaw (Poland).

The number of employees of the Bank as of 31 December 2004 and 2003 was 2,094 and 2,046, respectively.

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

Shareholder	2004	2003
	%	%
National Bank of the Republic of Belarus	33.52%	27.26%
JSC Nazionalny Kosmichesky Bank (Russia)	32.46%	0.70%
APONE S.A. (Luxemburg)	-	9.69%
Stratford, Chadwyck & Partners Limited (Seychelles)	-	9.69%
Megal Securities Limited (UK)	-	9.69%
Ministry of Economy of the Republic of Belarus	6.21%	8.06%
RUE Belarusian Metal Plant	5.27%	7.42%
ZAO Pinskiy drev	6.28%	5.70%
Other	<u>16.26</u>	<u>21.79%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

These financial statements were authorized for issue by the management of the Bank on 25 March 2005.

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

2. BASIS OF PRESENTATION

Accounting basis

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

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

Shareholders' equity as of 31 December 2004 and 2003 and the profit/(loss) for the years then ended are reconciled between the statutory accounting legislation and IFRS as follows:

	2004		2003 (restated)	
	Equity	Profit/(Loss)	Equity	Profit/(Loss)
Statutory accounting legislation	72,648	13,398	57,352	10,631
Deferred income tax liabilities	(4,592)	5,366	(12,321)	(2,031)
Provisions, net	(17,388)	(8,543)	(12,023)	13,685
Fixed assets, net	15,653	-	20,741	14,561
IAS 29 effect, net	13,887	(4,640)	16,642	(22,792)
Fair value adjustments, net	5,233	659	5,036	3,395
Accrued interest adjustments, net	6,241	1,788	5,094	(1,380)
Foreign currency gain adjustments, net	-	527	(603)	(18,512)
Other, net	(1,475)	(1,071)	(237)	165
International Financial Reporting Standards	<u>90,207</u>	<u>7,484</u>	<u>79,681</u>	<u>(2,278)</u>

Functional currency

The functional currency of these financial statements is the Belarusian Rouble ("BYR").

3. SIGNIFICANT ACCOUNTING POLICIES

Investments in non-consolidated subsidiaries

The Bank has investments in corporate shares of five companies where it owns more than 50% of share capital and has ability and intent to control their operating and financial policies. The management of the Bank did not consolidate the financial statements of the subsidiaries with these financial statements as it believes that the effect of consolidation would not be significant enough and that preparation of financial statements of these companies in accordance with IFRS would not be practical. Investments in non-consolidated subsidiaries are accounted for at cost restated for inflation less allowance for impairment. The allowance was calculated based on the financial statements of these companies, prepared in accordance with Belarusian accounting legislation and including some transformation adjustments required under IFRS.

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

Recognition and measurement of financial instruments

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

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

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

Precious metals

Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Metal Exchange rates as of 31 December 2004 and 2003 using the BYR/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain on operations with precious metals in other income.

Loans and advances to banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with fixed maturity are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

Securities held for trading

Securities held for trading represent debt and equity securities held-for-trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Securities held for trading are initially recorded at cost, which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's securities held for trading. Accrued interest receivable is included in the market price of the securities. When reliable market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. The fair value adjustment on securities held for trading is recognized in the profit and loss account for the period.

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

Repurchase and reverse repurchase agreements

The Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business.

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

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit, which is collateralized by securities or other assets.

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

Originated loans

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

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

Write off of loans and advances

Loans and advances are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities to collect amounts due to the Bank and to receive all available collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Supervisory Council.

Non-accrual loans

Loans are placed on non-accrual status when interest is delinquent for a period in excess of 30 days. Interest income is not recognized if recovery is doubtful and it is accrued on respective off-balance sheet accounts. Subsequent payments by borrowers are applied first to principal and then to delinquent interest. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

Allowance for losses

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

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

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

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

Securities available for sale

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

Fixed and intangible assets

Fixed and intangible assets are carried at historical cost restated for inflation less accumulated depreciation and any accumulated impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	1 - 1.5 %
Computer equipment	10 - 20 %
Vehicles	11 - 20 %
Office furniture and other fixed assets	8 - 25 %
Intangible assets	10 - 50 %

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

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

Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference representing an impairment loss is recognized as an expense in the profit and loss account in the year it arises. Subsequent increase in recoverable value of the asset is recognized when circumstances and events that led to the recognition of the impairment loss ceased to exist and there is persuasive evidence that the new circumstances and events would persist for the foreseeable future. Reversal of an impairment loss on fixed assets is recognized as income in the profit and loss account.

Taxation

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

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

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

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

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

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

Deposits from banks and customers

Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Debt securities issued

Debt securities issued represent promissory notes, certificates of deposit and debentures issued by the Bank. They are accounted for according to the same principles used for customer and bank deposits.

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital

Share capital is recognized at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury stock is recorded at restated cost.

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

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

Retirement and other benefit obligations

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

Recognition of income and expense

Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans become overdue by more than 30 days. Other income is credited to profit and loss account when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission income/expenses are recognized on an accrual basis.

Foreign currency translation

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

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

Rates of exchange

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

	31 December 2004	31 December 2003
BYR/USD	2,170.00	2,156.00
BYR/EUR	2,955.65	2,695.22
BYR/RUR	77.91	73.19
BYR/gold (1OZ)	950,460.00	897,435.00
BYR/platinum (1OZ)	1,865,115.00	1,752,828.00

Offset of financial assets and liabilities

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

Accounting for the effects of hyperinflation

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

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

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

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

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

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

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

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

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

Early adoption of IAS 8 (Revised) "Accounting policies, changes in accounting estimates and errors"

In 2004 the Bank's management adopted IAS 8 (Revised) "Accounting policies, changes in accounting estimates and errors" according to which retrospectively corrected an error in application of accounting policy of the Bank in respect of valuation of its office building on Skryganova 6. In the financial statements for the year ended 31 December 2003 this building was accounted for at fair value for the first time. The revaluation of the building in 2003 resulted in the uplift of its carrying value as of 31 December 2003 for BYR 2,477 million (without effect of inflation for 2004 amounting for BYR 356 million). As of 31 December 2003 the revaluation effect was recognized as revaluation reserve in the Bank's shareholders' equity. In preparing its financial statements for the year 2004, the Bank decided to correct the error in application of the accounting policy on revaluation of the single building and not an entire category, and recognized it as previously at historical cost restated for inflation less accumulated depreciation. The Bank made the change in accounting policy retrospectively and reduced the carrying value of the building by BYR 2,477 million (BYR 2,833 million including effect of inflation), which resulted in the following adjustments:

(Amounts include effect of inflation for 2004)	2003 (restated)	Adjustment	2003
Fixed and intangible assets, less			
accumulated depreciation at year end	67,504	(2,833)	70,337
Fixed assets revaluation reserve at year end	-	(1,905)	1,905
Deferred tax liabilities at year end	11,392	(928)	12,320

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

4. NET INTEREST INCOME

Net interest income comprises:

	2004	2003
Interest income		
Interest on loans and advances to customers	49,583	53,169
Interest on loans and advances to banks	3,985	6,047
Interest on debt securities	542	164
Other interest income	<u>27</u>	<u>19</u>
Total interest income	<u><u>54,137</u></u>	<u><u>59,399</u></u>
Interest expense		
Interest on customer accounts	24,374	28,476
Interest on loans and advances from banks	7,859	8,964
Interest on debt securities issued	42	2,758
Other interest expenses	<u>3</u>	<u>-</u>
Total interest expense	<u><u>32,278</u></u>	<u><u>40,198</u></u>
Net interest income before provision for loan losses	<u><u>21,859</u></u>	<u><u>19,201</u></u>

5. ALLOWANCE FOR LOSSES AND IMPAIRMENT, OTHER PROVISIONS

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

	Loans and advances to banks	Loans and advances to customers	Total
31 December 2002	2,823	36,770	39,593
(Recovery)/Provision	(1,575)	8,974	7,399
Write-off of assets	-	(26,040)	(26,040)
Gain on net monetary position	<u>(403)</u>	<u>(5,621)</u>	<u>(6,024)</u>
31 December 2003	845	14,083	14,928
(Recovery)/Provision	(211)	7,071	6,860
Write-off of assets	-	(2,959)	(2,959)
Gain on net monetary position	<u>(92)</u>	<u>(2,040)</u>	<u>(2,132)</u>
31 December 2004	<u><u>542</u></u>	<u><u>16,155</u></u>	<u><u>16,697</u></u>

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

	Investments in non-consolidated subsidiaries	Other assets	Guarantees and other commitments	Total
31 December 2002	2,582	25	1,748	4,355
Provision	-	771	593	1,364
Write-offs	-	(19)	-	(19)
Gain on net monetary position	(523)	(88)	(418)	(1,029)
31 December 2003	2,059	683	1,923	4,671
(Recovery)/Provision	(1,158)	122	2,379	1,343
Gain on net monetary position	(184)	(95)	(397)	(676)
31 December 2004	<u>717</u>	<u>716</u>	<u>3,905</u>	<u>5,338</u>

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

6. NET GAIN ON TRADING SECURITIES

Net gain on trading securities for the years ended 31 December 2004 and 2003 comprises net gain on trading with debt securities.

7. FEES AND COMMISSION INCOME AND EXPENSE

Fees and commission income and expense comprise:

	2004	2003
Fees and commission income:		
Service fees on operations with customers	20,893	20,317
Commission on foreign exchange and precious metals transactions	8,257	7,358
Commission on transactions with banks	<u>967</u>	<u>913</u>
Commission on transactions with securities	59	136
Other fee and commission income	<u>3</u>	<u>1,832</u>
Total fees and commission income	30,179	30,556
	2004	2003
Fees and commission expense:		
Commission on transactions with banks	875	824
Commission on foreign exchange and precious metals transactions	824	1,079
Commission on transactions with securities	36	39
Commission on operations with customers	5	12
Other fee and commission expense	<u>164</u>	<u>1</u>
Total fees and commission expense	<u>1,904</u>	<u>1,955</u>

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8. NET GAIN ON INVESTMENT SECURITIES

Net gain on investments securities includes results from operations with available-for-sale securities and comprises:

	2004	2003
Net gain on derecognition of securities available for sale	239	3,281
Fair value adjustment on securities available for sale	<u>68</u>	<u>1,525</u>
Total net gain on investment securities	<u>307</u>	<u>4,806</u>

9. OPERATING EXPENSES

Operating expenses comprise:

	2004	2003
Staff costs	21,780	21,643
Social security contributions	6,949	6,904
Depreciation charge on fixed and intangible assets	6,292	9,810
Impairment loss on computer equipment	-	10,069
Taxes, other than income tax	4,762	4,828
Rent, utilities and repairs	4,521	4,142
Software use fees	2,425	1,818
Compulsory contributions to Deposit Insurance Fund	1,950	1,491
Security expenses	1,867	1,842
Communication expenses	1,156	1,293
Transportation expenses	1,151	1,052
Professional service fees	1,094	1,796
Office expenses	972	236
Loss on fixed assets disposal	150	2,121
Other	<u>3,965</u>	<u>7,940</u>
Total operating expenses	<u>59,034</u>	<u>76,985</u>

10. OTHER INCOME

Other income comprises:

	2004	2003
Income from recovery of debts previously written off	3,660	294
Income on operations with plastic cards	1,579	1,302
Cash collection service fee income	417	340
Rent income	354	84
Fines and penalties received	210	605
Other	<u>353</u>	<u>704</u>
Total other income	<u>6,573</u>	<u>3,329</u>

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11. INCOME TAXES

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

The Bank is subject to certain permanent tax differences due to non-tax deductibility of salary and depreciation expenses and other differences resulting from provisions of the local tax regulations. According to the Belarusian tax legislation investments of a bank in fixed and intangible assets made in a reporting period may be tax deductible for this reporting period in the amount defined by the legislation. There are certain conditions to be met in order for the Bank to enjoy this tax benefit. In 2004 and 2003 the Bank enjoyed the benefit and recognized it as deduction from the current income tax expense in the respective tax periods.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

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

	2004	2003 (restated)
Tax deductible temporary differences:		
Loans to banks and customers	12,767	7,507
Investment securities	784	2,644
Other assets	2,196	2,327
Provisions	3,905	1,923
Other liabilities	-	462
Total tax deductible temporary differences	<u>19,652</u>	<u>14,863</u>
Taxable temporary differences:		
Fixed and intangible assets	(22,890)	(37,865)
Investment securities	(4,522)	(6,636)
Accrued interest income	(6,241)	(5,094)
Total taxable temporary differences	<u>(33,653)</u>	<u>(49,595)</u>
Net taxable temporary differences	<u>(14,001)</u>	<u>(34,732)</u>
Deferred tax liabilities at the statutory rate (32.8%)	<u>(4,592)</u>	<u>(11,392)</u>

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

	2004	2003 (restated)
Profit before income taxes, after loss on net monetary position	<u>2,686</u>	<u>1,326</u>
Statutory effective tax rate	32.8%	33.5%
Theoretical tax at the statutory tax rate	881	444
Tax effect of permanent differences	(313)	3,423
Recovery of deferred tax liabilities	(5,366)	-
Change in tax rate	<u>-</u>	<u>(263)</u>
(Recovery)/ income tax expense after recovery of deferred taxes	<u>(4,798)</u>	<u>3,604</u>
Current income tax expense	568	1,573
Deferred income tax expense	-	2,031
Recovery of deferred tax liabilities	<u>(5,366)</u>	<u>-</u>
(Recovery)/ income tax expense after recovery of deferred taxes	<u>(4,798)</u>	<u>3,604</u>

Deferred income tax liabilities	2004	2003 (restated)
At beginning of the period	11,392	11,738
Increase in the deferred income tax for the period	-	2,031
Recovery of deferred tax liabilities	(5,366)	-
Gain on net monetary position	<u>(1,434)</u>	<u>(2,377)</u>
At end of the period	<u>4,592</u>	<u>11,392</u>

Income tax liabilities consist of the following:

	2004	2003 (restated)
Current income tax liabilities	-	-
Deferred income tax liabilities	<u>4,592</u>	<u>11,392</u>
Income tax liabilities	<u>4,592</u>	<u>11,392</u>

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

Cash and balances with the NB RB comprise:

	2004	2003
Cash on hand	20,433	17,920
Balances with the NB RB	36,383	35,551
Accrued interest income on balances with the NB RB	36	-
Total cash and balances with the NB RB	56,852	53,471

The balances with the NB RB as of 31 December 2004 and 2003 include BYR 33,015 million and BYR 31,992 million, respectively, which represent the minimum reserve deposit required by the NB RB. The Bank is required to maintain the reserve balance at the NB RB at all times.

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

	2004	2003
Cash and balances with the NB RB	56,852	53,471
Loans and advances to banks in OECD countries	21,432	32,458
Government securities held for trading	10,088	18,238
Precious metals in vault	97	43
Less minimum reserve deposit with the NB RB	(33,015)	(31,992)
Total cash and cash equivalents	55,454	72,218

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

Loans and advances to banks comprise:

	2004	2003
Loans to banks	65,334	56,112
Advances to banks	51,890	67,569
Accrued interest income on loans and advances to banks	27	66
	117,251	123,747
Less allowance for loan losses	(542)	(845)
Total loans and advances to banks, net	116,709	122,902

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

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As of 31 December 2004 and 2003, the advances to banks include fixed amounts of BYR 543 million and BYR 617 million, respectively, placed with Visa International as a guarantee deposit on operations with plastic cards.

As of 31 December 2004 and 2003, the advances to banks include fixed amounts of BYR 39,670 million and BYR 48,169 million, respectively, placed as security against letters of credit issued by the Bank.

As of 31 December 2004 and 2003 the Bank had loans to six banks totaling BYR 85,368 million and loans to five banks totaling BYR 74,539 million, respectively, which individually exceeded 10% of the Bank's equity.

14. SECURITIES HELD FOR TRADING

Securities held for trading comprise:

	2004	2003
Short-term government bonds (GKO)	103	16,427
Long-term government bonds (GDO)	<u>9,985</u>	<u>1,811</u>
Total securities held for trading	<u>10,088</u>	<u>18,238</u>

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

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

As of 31 December 2004 and 2003 included in securities held for trading were GKO and GDO pledged under repurchase agreements amounting to BYR 1,076 million and BYR 3,625 million, respectively. Repurchase agreements for GKO have a maturity within one month, for GDO - within two and three months as of 31 December 2004 and 2003, respectively.

15. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

As of 31 December 2004 and 2003 the Bank purchased the following securities under agreements to resell them within one month from the respective reporting dates:

	2004	2003
GKO	-	1,087
Promissory notes of Belarusian companies	<u>-</u>	<u>160</u>
Total securities purchased under agreements to resell	<u>-</u>	<u>1,247</u>

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

Loans and advances to customers comprise:

	2004	2003
Originated loans	343,309	310,152
Net investment in finance leases	16,257	3,995
Accrued interest income on loans and advances to customers	<u>5,508</u>	<u>5,005</u>
	365,074	319,152
Less allowance for loan losses	<u>(16,155)</u>	<u>(14,083)</u>
Total loans and advances to customers, net	<u>348,919</u>	<u>305,069</u>
	2004	2003
Loans collateralized by equipment and goods in turnover	161,945	138,943
Loans collateralized by real estate	74,026	48,539
Loans collateralized by guarantees of state bodies and local authorities	18,026	16,713
Loans collateralized by lien over receivables	3,104	16,239
Loans collateralized by corporate guarantees	6,337	11,814
Loans collateralized by cash	65	70
Loans collateralized by other types of collateral	24,985	3,722
Unsecured loans	<u>54,821</u>	<u>74,112</u>
Total loans and advances to customers	<u>343,309</u>	<u>310,152</u>

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

As of 31 December 2004 and 2003 included in loans and advances to customers are non-accrual loans amounting to BYR 3,705 million and BYR 5,726 million, respectively.

As of 31 December 2004 and 2003 the Bank provided loans to seven customers totaling BYR 125,127 million and loans to eight customers totaling BYR 149,195 million, respectively, which individually exceeded 10% of the Bank's equity.

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

Analysis by industry	2004	2003
Manufacturing	179,731	208,598
Trade	44,502	20,783
Agricultural	6,122	3,988
Factoring	13,714	8,399
Finance lease	16,257	4,007
Construction	7,279	2,807
Individuals	18,540	2,699
Other	73,421	62,866
Accrued interest income on loans and advances to customers	5,508	5,005
	<u>365,074</u>	<u>319,152</u>
Less allowance for loan losses	<u>(16,155)</u>	<u>(14,083)</u>
Total loans and advances to customers, net	<u>348,919</u>	<u>305,069</u>

Net investment in finance leases as of 31 December 2004 and 2003 comprises the following:

	2004	2003
Total minimum lease and maintenance payments	19,752	5,108
Less: unearned finance income	<u>(3,495)</u>	<u>(1,113)</u>
Net investment in finance leases	<u>16,257</u>	<u>3,995</u>
Current portion	6,203	2,184
Long-term portion	<u>10,054</u>	<u>1,811</u>
Net investment in finance leases	<u>16,257</u>	<u>3,995</u>

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

	2004	2003
Not later than one year	7,536	2,793
Later than one year not later than five years	12,216	2,278
Later than five years	<u>-</u>	<u>37</u>
Total future minimum lease payments	<u>19,752</u>	<u>5,108</u>

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17. INVESTMENT SECURITIES, LESS ALLOWANCE FOR IMPAIRMENT

Investment securities comprise:

	2004	2003
Securities available for sale	4,010	32,871
Investments in non-consolidated subsidiaries	4,569	5,207
	8,579	38,078
Less allowance for impairment	(717)	(2,059)
Total investment securities	7,862	36,019

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

Available for sale securities comprise:

	2004	2003
Securities available for sale		
Promissory note of the Ministry of Finance of the Republic of Belarus	-	25,651
Bonds of foreign governments	-	4,108
Promissory notes of the NB RB	-	1,589
Promissory notes of Belarusian banks	3,363	1,378
Certificates of deposit of Belarusian banks	519	-
Corporate shares	128	145
Total securities available for sale	4,010	32,871

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

In September 1991, Vnesheconombank of USSR froze all customer accounts. During 1996 an agreement was reached between the governments of the Russian Federation and 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 Belarusian customers. During 1996 the governments of the Russian Federation and the Republic of Belarus 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. The promissory note maturity date has been extended several times and on 30 June 2004 the note was paid off in cash.

Promissory notes of Belarusian banks in the Bank's portfolio are Belarusian Rouble denominated debt securities purchased with discount to nominal value with maturities ranging from 1 to 6 months.

As of 31 December 2004 included in securities available for sale were promissory notes of Belarusian banks pledged under repurchase agreements amounting to BYR 1,974 million. Repurchase agreements for promissory notes of Belarusian banks have a maturity within three months.

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Investments in non-consolidated subsidiaries comprise:

	% in equity	2004	2003
- USP "Belvneshstrah"	100%	4,467	5,110
- KSO "Vneshstrojinvest" OOO	51%	43	49
- KSO "Vnesheconomstroj" OOO	51%	46	37
- ZAO "Mezhotraslevoj institut nezavisimoy expertisy investitsionnyh proektov" (Interindustry institute of independent assessment of investment projects)	52%	13	11
		<u>4,569</u>	<u>5,207</u>
Less allowance for impairment		<u>(717)</u>	<u>(2,059)</u>
Total investments in non-consolidated subsidiaries		<u>3,852</u>	<u>3,148</u>

As discussed in Note 3, the Bank did not consolidate the financial statements of these subsidiaries into these financial statements.

As of 31 December 2004 and 2003 the Bank had an interest in the share capital of USP "Belvneshstrah" (registered in the Republic of Belarus) of 100%. The Company provides foreign trade insurance services on the territory of the Republic of Belarus.

As of 31 December 2004 and 2003 the Bank had an interest in the share capital of KSO "Vneshstrojinvest" OOO (registered in the Republic of Belarus) of 51%. The Company renders finance lease services and carries out transactions with real estate.

As of 31 December 2004 and 2003 the Bank had an interest in the share capital of KSO "Vnesheconomstroj" OOO (registered in the Republic of Belarus) of 51%. The Company constructs buildings and carries out transactions with real estate.

As of 31 December 2004 and 2003 the Bank had an interest in the share capital of ZAO "Mezhotraslevoj institute nezavisimoy expertisy investitsionnyh proektov" (registered in the Republic of Belarus) of 52%. The Institute provides investment projects assessment services in the Republic of Belarus.

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

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18. FIXED AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION

	Buildings	Computer equipment	Vehicles	Office furniture and other fixed assets	Construc- tion in progress	Intangible assets	Total
At restated cost							
31 December 2003 (as per 2003 financial statements)	37,142	1,389	12,516	78,820	5,455	59	135,381
Effect of restatement for change in accounting policy (Note 3)	(2,833)	-	-	-	-	-	(2,833)
31 December 2003 (as restated)	34,309	1,389	12,516	78,820	5,455	59	132,548
Additions	6,152	1,210	293	2,690	2,365	17	12,727
Disposals	(208)	(21)	(577)	(992)	(4,030)	(2)	(5,830)
31 December 2004	<u>40,253</u>	<u>2,578</u>	<u>12,232</u>	<u>80,518</u>	<u>3,790</u>	<u>74</u>	<u>139,445</u>
Accumulated depreciation							
31 December 2003	1,844	-	10,516	52,655	-	29	65,044
Charge for the period	471	419	433	4,960	-	9	6,292
Disposals	(3)	-	(561)	(815)	-	(2)	(1,381)
31 December 2004	<u>2,312</u>	<u>419</u>	<u>10,388</u>	<u>56,800</u>	<u>-</u>	<u>36</u>	<u>69,955</u>
Net book value							
31 December 2004	<u><u>37,941</u></u>	<u><u>2,159</u></u>	<u><u>1,844</u></u>	<u><u>23,718</u></u>	<u><u>3,790</u></u>	<u><u>38</u></u>	<u><u>69,490</u></u>
Net book value							
31 December 2003 (as per 2003 financial statements)	<u>35,298</u>	<u>1,389</u>	<u>2,000</u>	<u>26,165</u>	<u>5,455</u>	<u>30</u>	<u>70,337</u>
Restatement effect due to changes in accounting policy (Note 3)	<u>(2,833)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,833)</u>
31 December 2003 (as restated)	<u><u>32,465</u></u>	<u><u>1,389</u></u>	<u><u>2,000</u></u>	<u><u>26,165</u></u>	<u><u>5,455</u></u>	<u><u>30</u></u>	<u><u>67,504</u></u>

In 2003 the Bank, based on the provisions of IAS 36 "Impairment of assets" reversed the previously impaired value of two office buildings on Miasnikova 32 and Zaslavskaja 10, Minsk. The Bank assessed the recoverable amount of these assets based on their net selling prices. The net selling price was determined by reference to an active market for office buildings. The revaluation was performed by the Bank's own qualified valuers and resulted in the uplift of the carrying amount of the buildings as of 31 December 2003 for BYR 11,208 million. The management believes that the prices for this category of realty are steady and will not drop materially in a foreseeable future.

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19. OTHER ASSETS, LESS ALLOWANCE FOR LOSSES

Other assets comprise:

	2004	2003
Prepaid expenses and other debtors	4,118	4,162
Taxes receivable, other than income tax	2,665	638
Assets received through repossession of collateral	1,633	1,694
Settlements on capital investments	843	1,186
Other	804	1,541
	<u>10,063</u>	<u>9,221</u>
Less allowance for losses on other assets	(716)	(689)
Total other assets	<u>9,347</u>	<u>8,532</u>

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

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

Amounts due to the NB RB comprise:

	2004	2003
Demand deposits	541	3,191
Time deposits	-	168
Accrued interest expense on deposits of the NB RB	-	2
	<u>541</u>	<u>3,361</u>
Total due to the NB RB	<u>541</u>	<u>3,361</u>

21. LOANS AND ADVANCES FROM BANKS

Loans and advances from banks comprise:

	2004	2003
Demand deposits	23,728	21,565
Time deposits	62,861	69,366
Accrued interest expense on deposits from banks	77	106
	<u>86,666</u>	<u>91,037</u>
Total deposits from banks	<u>86,666</u>	<u>91,037</u>

As of 31 December 2004, included into loans and advances from banks is BYR 49,910 million and BYR 8,727 million with International Commercial Bank of China (the Republic of China) and JSC "Priorbank" (the Republic of Belarus), respectively, which represents 58% and 10% of total deposits from banks, respectively.

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As of 31 December 2003, included into loans and advances from banks is BYR 61,661 million and BYR 13,683 million with International Commercial Bank of China (the Republic of China) and JSC "Belarusbank" (the Republic of Belarus), respectively, which represents 68% and 15% of total deposits from banks, respectively.

22. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

As of 31 December 2004 and 2003 the Bank sold the following securities under agreements to repurchase them:

	2004	2003
GKO	103	2,983
GDO	944	437
Promissory notes of Belarusian banks	1,955	-
Accrued interest expense on securities sold under agreements to repurchase	<u>34</u>	<u>15</u>
Total securities sold under agreements to repurchase	<u>3,036</u>	<u>3,435</u>

As of 31 December 2004 and 2003 the GKO and GDO sold under the said agreements are included in trading portfolio of the Bank at fair value of BYR 1,076 million and BYR 3,625 million, respectively.

As of 31 December 2004 the promissory notes of banks sold under agreements to repurchase are included in investment portfolio of the Bank at fair value of BYR 1,974 million.

The maturity of the agreements to repurchase GKO is within one month of the respective reporting dates, the maturity of the agreements to repurchase GDO is within two and three months as of 31 December 2004 and 2003, respectively. The maturity of the agreements to repurchase promissory notes of banks is within three months.

23. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2004	2003
Repayable on demand	187,959	207,421
Time deposits	236,663	205,350
Accrued interest expense on customer accounts	<u>1,025</u>	<u>968</u>
Total customer accounts	<u>425,647</u>	<u>413,739</u>

As of 31 December 2004 and 2003 included in customer accounts are deposits repayable on demand denominated in platinum of BYR 3,056 million and BYR 3,157 million, respectively.

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As of 31 December 2004 and 2003, customer accounts of BYR 21,098 million and BYR 14,591 million were held as security against letters of credit issued by the Bank, respectively.

Analysis of customer accounts by industry:

	2004	2003
Manufacturing	220,862	191,709
Individuals	177,136	145,436
Transport and communications	19,839	62,117
Trade	3,956	8,178
Construction	1,772	4,624
Agricultural	455	254
Information technology services	334	320
Utilities	268	133
Accrued interest expense on customer accounts	<u>1,025</u>	<u>968</u>
Total customer accounts	<u>425,647</u>	<u>413,739</u>

24. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	2004	2003
Interest bearing promissory notes	220	42
Promissory notes issued with discount	382	462
Interest free promissory notes	242	4,479
Accrued interest expense on debt securities issued	<u>3</u>	<u>-</u>
Total debt securities issued	<u>847</u>	<u>4,983</u>

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

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

25. PROVISIONS

Provisions comprise:

	2004	2003
Provisions for guarantees	1,185	871
Provisions for letters of credit and related claim	<u>2,720</u>	<u>1,052</u>
Total provisions	<u>3,905</u>	<u>1,923</u>

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

26. OTHER LIABILITIES

Other liabilities comprise:

	2004	2003
Settlements on capital investments and other accounts payable	3,365	901
Taxes payable, other than income taxes	376	1,750
Settlement on finance lease transactions	28	199
Other	<u>134</u>	<u>601</u>
Total other liabilities	<u>3,903</u>	<u>3,451</u>

27. SHARE CAPITAL

As of 31 December 2004 and 2003 the authorized, issued and fully paid share capital comprised 241,579,330 and 171,579,330 ordinary shares with a par value of BYR 100 each (at historical cost). All shares are ranked equally and carry one vote.

During the years ended 31 December 2004 and 2003 the Bank repurchased 49,885 and 30,396 treasury ordinary shares, respectively.

28. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

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

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

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As of 31 December 2004 and 2003, the nominal or contract amounts and risk weighted amounts were:

	2004		2003	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	69,972	69,972	42,982	42,982
Letters of credit and other contingent obligations	200,704	27,089	217,959	27,060
Commitments on credits and unused credit lines	<u>35,119</u>	<u>4,456</u>	<u>22,413</u>	<u>1,836</u>
Total contingent liabilities and credit commitments	<u>305,795</u>	<u>101,517</u>	<u>283,354</u>	<u>71,878</u>

The Bank has made a provision of BYR 1,185 million and BYR 871 million against commitments under guarantees issued as of 31 December 2004 and 2003.

The Bank has made a provision of BYR 2,720 million and BYR 1,052 million against commitments under letters of credit issued as of 31 December 2004 and 2003. As of 31 December 2004, included into provision is BYR 1,904 million made for the Bank's commitments under letter of credit issued by order of JV "LeGrand" (Republic of Belarus).

Commitments on credits and unused credit lines are cancelable agreements and therefore represent no risk and accordingly no provision has been made against them as of 31 December 2004 and 2003.

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

Operating leases - The Bank's future minimum rental payments under non-cancelable operating leases in effect as of 31 December 2004 and 2003 are presented in the table below:

	2004	2003
Not later than 1 year	428	620
Later than 1 year but not later than 5 years	1,428	1,480
Later than 5 years	<u>-</u>	<u>755</u>
Total future minimum rental payments	<u>1,856</u>	<u>2,855</u>

Legal proceedings - From time to time and in the normal course of the business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements, except for the provision made for probable losses in respect of commitments under letter of credit issued by order of JV "LeGrand", as discussed above.

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

29. TRANSACTIONS WITH RELATED PARTIES

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

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates - enterprises in which the Bank has significant influence and which are neither subsidiaries nor joint ventures of the investor;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

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

	2004		2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Balances with the NB RB	36,383	36,383	35,551	35,551
Loans and advances to banks, gross	859	117,251	5,063	123,747
Allowance for losses on loans and advances to banks	(9)	(542)	(102)	(845)
Loans to customers, gross	20,660	365,074	20,485	319,152
Allowance for losses on loans to customers	(2,200)	(16,155)	(1,086)	(14,083)
Investment securities, gross	4,569	8,579	32,447	38,078
Allowance for impairment	(717)	(717)	(2,059)	(2,059)
Due to the NB RB	541	541	3,361	3,361
Loans and advances from banks	7,730	86,666	9	91,037
Customer accounts	4,282	425,647	4,954	413,739
Provisions	299	3,905	124	1,923
Commitments on credits and unused credit lines	220	35,119	847	22,413
Letters of credit	-	200,704	501	217,959
Guarantees issued	1,194	69,972	617	42,982

During the year ended 31 December 2004 the Bank originated loans and advances to banks and customers - related parties amounting to BYR 67,473 million, and received loans and advances repaid of BYR 68,343 million. During the year ended 31 December 2003 the Bank originated loans and advances to banks and customers - related parties amounting to BYR 24,096 million, and received loans and advances repaid of BYR 5,901 million. As of 31 December 2004 and 2003, the Bank had interest income accrued in respect of loans and advances granted to related parties totaling BYR 2,901 million and BYR 1,706 million, respectively.

During the year ended 31 December 2004 the Bank received advances and deposits from banks and customers - related parties of BYR 588,301 million, and repaid deposits and advances totaling BYR 580,622 million. During the year ended 31 December 2003 the Bank received advances and deposits from banks and customers - related parties of BYR 303,324 million, and repaid deposits and advances totaling BYR 235,884 million.

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

	2004		2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	2,101	54,137	2,604	59,399
Interest expense	(645)	(32,278)	(976)	(40,198)
Fees and commission income	329	30,179	133	30,556
Fees and commission expense	-	(1,904)	(97)	(1,955)
Other income	310	6,573	56	3,329
Management remuneration	(362)	(59,034)	(241)	(76,985)

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

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

Precious metals - For these instruments the carrying amount is a reasonable estimate of their fair value and determined with reference to the current rate computed based on the second fixing of the London Metal Exchange.

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

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

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Securities purchased under repurchase agreements - As of 31 December 2004 and 2003, the fair value of securities purchased under agreements to resell is determined based on market value of backed securities and other assets with reference to an active market.

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

Securities available for sale - As of 31 December 2004 and 2003 securities available for sale are stated at fair value or at cost, less allowance for impairment, which approximates its fair value. Fair value of securities available for sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities fair value was determined by reference to market prices of securities with similar credit risk and maturity. If such quotes do not exist, management estimation is used. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment.

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

Customer accounts - As of 31 December 2004 and 2003 the carrying amount of term deposits and current accounts of the Bank's customers is a reasonable estimate of their fair value.

Securities sold under repurchase agreements - As of 31 December 2004 and 2003 the carrying amount of securities sold under agreements to repurchase is a reasonable estimate of their fair value.

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

31. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus the Bank's provisions for the principal risks.

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

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

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

Capital amounts and ratios	Actual amount in BYR million	For capital adequacy purposes amount in BYR million	Ratio for capital adequacy purposes	Minimum required ratio
As of 31 December 2004				
Total capital	90,207	86,457	15.53%	8%
Tier 1 capital	90,207	90,207	16.20%	4%
As of 31 December 2003				
Total capital	79,681	76,631	15.21%	8%
Tier 1 capital	79,681	79,681	15.81%	4%

32. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Liquidity risk

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

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. The Banking Risks Management Committee performs regular monitoring of this risk and develops overall policies and strategies as a part of assets/liabilities management process.

The following tables present an analysis of interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities.

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity un- defined (incl. allowance for losses and impairment)	2004 BYR million Total
ASSETS								
Interest bearing assets:								
Cash and balances with the NBRB	-	-	3,056	-	-	-	-	3,056
Loans and advances to banks, less allowance for loan losses	61,110	5,572	4,682	6,114	72	-	(527)	77,023
Securities held for trading	10,088	-	-	-	-	-	-	10,088
Loans and advances to customers, less allowance for loan losses	43,251	100,330	113,233	87,201	11,492	354	(12,539)	343,322
Investment securities, less allowance for impairment	1,192	2,685	5	-	-	-	-	3,882
Total interest bearing assets	<u>115,641</u>	<u>108,587</u>	<u>120,976</u>	<u>93,315</u>	<u>11,564</u>	<u>354</u>	<u>(13,066)</u>	<u>437,371</u>
Non interest bearing assets:								
Cash and balances with the NB RB	20,745	-	-	-	-	-	33,015	53,760
Precious metals	97	-	-	-	-	-	-	97
Loans and advances to banks, less allowance for loan losses	39,538	-	-	136	-	-	(15)	39,659
Loans and advances to customers, less allowance for loan losses	-	-	-	-	-	3,705	(3,616)	89
Investment securities, less allowance for impairment	-	-	-	4,697	-	-	(717)	3,980
Interest accrued on interest bearing assets	1,783	-	-	2,796	-	992	-	5,571
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	-	-	69,490	69,490
Other assets, less allowance for losses	5,617	510	1,015	2,921	-	-	(716)	9,347
Total non interest bearing assets	<u>67,780</u>	<u>510</u>	<u>1,015</u>	<u>10,550</u>	<u>-</u>	<u>4,697</u>	<u>97,441</u>	<u>181,993</u>
TOTAL ASSETS	<u>183,421</u>	<u>109,097</u>	<u>121,991</u>	<u>103,865</u>	<u>11,564</u>	<u>5,051</u>	<u>84,375</u>	<u>619,364</u>
LIABILITIES								
Interest bearing liabilities:								
Due to the NB RB	541	-	-	-	-	-	-	541
Loans and advances from banks	12,581	85	398	189	49,910	-	-	63,163
Securities sold under agreements to repurchase	1,572	1,430	-	-	-	-	-	3,002
Customer accounts	26,586	50,222	116,855	43,000	-	-	-	236,663
Debt securities issued	513	30	59	-	-	-	-	602
Total interest bearing liabilities	<u>41,793</u>	<u>51,767</u>	<u>117,312</u>	<u>43,189</u>	<u>49,910</u>	<u>-</u>	<u>-</u>	<u>303,971</u>
Non interest bearing liabilities:								
Loans and advances from banks	23,426	-	-	-	-	-	-	23,426
Customer accounts	187,959	-	-	-	-	-	-	187,959
Debt securities issued	225	17	-	-	-	-	-	242
Interest accrued on interest bearing liabilities	1,139	-	-	-	20	-	-	1,159
Provisions	-	-	-	-	-	-	3,905	3,905
Deferred income tax liabilities	-	-	1,562	1,226	1,804	-	-	4,592
Other liabilities	908	336	719	1,940	-	-	-	3,903
Total non interest bearing liabilities	<u>213,657</u>	<u>353</u>	<u>2,281</u>	<u>3,166</u>	<u>1,824</u>	<u>-</u>	<u>3,905</u>	<u>225,186</u>
TOTAL LIABILITIES	<u>255,450</u>	<u>52,120</u>	<u>119,593</u>	<u>46,355</u>	<u>51,734</u>	<u>-</u>	<u>3,905</u>	<u>529,157</u>
Liquidity gap	<u>(72,029)</u>	<u>56,977</u>	<u>2,398</u>	<u>57,510</u>	<u>(40,170)</u>			
Interest sensitivity gap	<u>73,848</u>	<u>56,820</u>	<u>3,664</u>	<u>50,126</u>	<u>(38,346)</u>			
Cumulative interest sensitivity gap	<u>73,848</u>	<u>130,668</u>	<u>134,332</u>	<u>184,458</u>	<u>146,112</u>			
Cumulative interest sensitivity gap as a percentage of total assets	<u>12%</u>	<u>21%</u>	<u>22%</u>	<u>30%</u>	<u>24%</u>			

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity un- defined (incl. allowance for losses and impairment)	2003 BYR million Total
ASSETS								
Interest bearing assets:								
Loans and advances to banks, less allowance for loan losses	57,332	10,302	3,442	18,641	-	-	(784)	88,933
Securities held for trading	17,729	509	-	-	-	-	-	18,238
Securities purchased under agreements to resell	1,247	-	-	-	-	-	-	1,247
Loans and advances to customers, less allowance for loan losses	34,800	117,339	81,251	50,447	19,745	4,839	(8,548)	299,873
Investment securities, less allowance for impairment	1,097	281	1,589	-	4,108	-	-	7,075
Total interest bearing assets	<u>112,205</u>	<u>128,431</u>	<u>86,282</u>	<u>69,088</u>	<u>23,853</u>	<u>4,839</u>	<u>(9,332)</u>	<u>415,366</u>
Non interest bearing assets:								
Cash and balances with the NB RB	21,479	-	-	-	-	-	31,992	53,471
Precious metals	43	-	-	-	-	-	-	43
Loans and advances to banks, less allowance for loan losses	13,791	367	-	19,806	-	-	(61)	33,903
Loans and advances to customers, less allowance for loan losses	-	-	-	-	-	5,726	(5,535)	191
Investment securities, less allowance for impairment	-	-	25,651	5,352	-	-	(2,059)	28,944
Interest accrued on interest bearing assets	3,410	-	-	-	-	1,661	-	5,071
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	-	-	67,504	67,504
Other assets, less allowance for losses	2,469	1,739	2,567	1,415	-	1,031	(689)	8,532
Total non interest bearing assets	<u>41,192</u>	<u>2,106</u>	<u>28,218</u>	<u>26,573</u>	<u>-</u>	<u>8,418</u>	<u>91,152</u>	<u>197,659</u>
TOTAL ASSETS	<u>153,397</u>	<u>130,537</u>	<u>114,500</u>	<u>95,661</u>	<u>23,853</u>	<u>13,257</u>	<u>81,820</u>	<u>613,025</u>
LIABILITIES								
Interest bearing liabilities:								
Due to the NB RB	3,191	-	168	-	-	-	-	3,359
Loans and advances from banks	8,446	-	2,289	853	61,662	-	-	73,250
Securities sold under agreements to repurchase	2,911	509	-	-	-	-	-	3,420
Customer accounts	19,852	38,992	85,130	61,376	-	-	-	205,350
Debt securities issued	407	-	97	-	-	-	-	504
Total interest bearing liabilities	<u>34,807</u>	<u>39,501</u>	<u>87,684</u>	<u>62,229</u>	<u>61,662</u>	<u>-</u>	<u>-</u>	<u>285,883</u>
Non interest bearing liabilities:								
Loans and advances from banks	17,681	-	-	-	-	-	-	17,681
Customer accounts	207,421	-	-	-	-	-	-	207,421
Debt securities issued	3,545	934	-	-	-	-	-	4,479
Interest accrued on interest bearing liabilities	1,091	-	-	-	23	-	-	1,114
Provisions	-	-	-	-	-	-	1,923	1,923
Deferred income tax liabilities	-	-	756	6,521	4,115	-	-	11,392
Other liabilities	3,009	29	156	241	-	16	-	3,451
Total non interest bearing liabilities	<u>232,747</u>	<u>963</u>	<u>912</u>	<u>6,762</u>	<u>4,138</u>	<u>16</u>	<u>1,923</u>	<u>247,461</u>
TOTAL LIABILITIES	<u>267,554</u>	<u>40,464</u>	<u>88,596</u>	<u>68,991</u>	<u>65,800</u>	<u>16</u>	<u>1,923</u>	<u>533,344</u>
Liquidity gap	<u>(114,157)</u>	<u>90,073</u>	<u>25,904</u>	<u>26,670</u>	<u>(41,947)</u>			
Interest sensitivity gap	<u>77,398</u>	<u>88,930</u>	<u>(1,402)</u>	<u>6,859</u>	<u>(37,809)</u>			
Cumulative interest sensitivity gap	<u>77,398</u>	<u>166,328</u>	<u>164,926</u>	<u>171,785</u>	<u>133,976</u>			
Cumulative interest sensitivity gap as a percentage of total assets	<u>13%</u>	<u>27%</u>	<u>27%</u>	<u>28%</u>	<u>22%</u>			

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

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates as of 31 December 2004 and 2003 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. The Bank's interest rate policy is analyzed and developed by the Banking Risks Management Committee and approved by the Board of the Bank.

	BYR	2004 Foreign currencies	BYR	2003 Foreign currencies
ASSETS				
Loans and advances to banks	15.0% - 26.0%	0.8% - 8%	23.0% - 32.2%	1.9% - 7.0%
Securities held for trading	18.3% - 22.8%	26.0% - 38.0%	-	-
Securities purchased under agreements to resell-	-	19.9% - 35.0%	-	-
Loans and advances to customers	18.0% - 36.0%	8.0% - 18.0%	15.0% - 48.0%	8.0% - 24.0%
Investment securities available for sale	22.0% - 45.0%	8% - 10%	-	6.0% - 12.0%
LIABILITIES				
Due to the NB RB	0%	0%	-	0% - 5.2%
Loans and advances from banks	20.0% - 30.0%	3.0% - 4.5%	25.0% - 30.0%	1.5% - 5.6%
Securities sold under agreements to repurchase	16.2% - 17.6%	8.8% - 10.0%	19.9% - 27.2%	-
Customer accounts	3.0% - 19.1%	0.8% - 7.4%	4.5% - 29.1%	1.3% - 7.9%
Debt securities issued	0% - 18.0%	-	0% - 15.0%	0% - 4.7%

The Bank has established controls over interest rate risks on the level of the Banking Risks Management Committee, the major decisions of which are approved by the Board. The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Currency risk

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

In order to minimize currency risk, the Bank applies the following tools: limits on counterparty banks, limits on the open currency position, limits on advances and deposits to banks-non-residents not included in the OECD. Transactions are performed in compliance with the limits set by the Credit Committee. These limits are also set in compliance with the minimum requirements of the National Bank of the Republic of Belarus.

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

	BYR	USD 1USD= BYR	EUR 1EUR= BYR	RUB 1RUB= BYR	Other currency	Currency undefined (incl. allowance for losses and impairment)	2004 BYR million Total
ASSETS							
Cash and balances with the NB RB	41,691	7,857	2,893	1,072	3,339	-	56,852
Precious metals	-	-	-	-	97	-	97
Loans and advances to banks, less allowance for loan losses	38,101	43,404	29,829	4,138	1,779	(542)	116,709
Securities held for trading	10,088	-	-	-	-	-	10,088
Loans and advances to customers, less allowance for loan losses	79,767	237,575	34,489	13,243	-	(16,155)	348,919
Investment securities, less allowance for impairment losses	6,601	1,978	-	-	-	(717)	7,862
Fixed and intangible assets, less accumulated depreciation	69,490	-	-	-	-	-	69,490
Other assets, less allowance for losses	8,792	1,170	49	29	23	(716)	9,347
TOTAL ASSETS	<u>254,530</u>	<u>291,984</u>	<u>67,260</u>	<u>18,482</u>	<u>5,238</u>	<u>(18,130)</u>	<u>619,364</u>
LIABILITIES							
Due to the NB RB	-	131	3	9	398	-	541
Loans and advances from banks	22,736	62,410	1,133	343	44	-	86,666
Securities sold under agreements to repurchase	1,062	1,974	-	-	-	-	3,036
Government loans	20	-	-	-	-	-	20
Customer accounts	119,487	221,324	68,398	12,844	3,594	-	425,647
Debt securities issued	847	-	-	-	-	-	847
Provisions	-	-	-	-	-	3,905	3,905
Deferred income tax liabilities	4,592	-	-	-	-	-	4,592
Other liabilities	645	2,878	373	2	5	-	3,903
TOTAL LIABILITIES	<u>149,389</u>	<u>288,717</u>	<u>69,907</u>	<u>13,198</u>	<u>4,041</u>	<u>3,905</u>	<u>529,157</u>
OPEN POSITION	<u>105,141</u>	<u>3,267</u>	<u>(2,647)</u>	<u>5,284</u>	<u>1,197</u>		

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	BYR	USD 1USD= 2,156.00 BYR	EUR 1EUR= 2,695.22 BYR	RUB 1RUB= 73.19 BYR	Other currency	Currency undefined (incl. allowance for losses and impairment)	2003 BYR million Total
ASSETS							
Cash and balances with the NB RB	25,697	21,733	1,826	818	3,397	-	53,471
Precious metals	-	-	-	-	43	-	43
Loans and advances to banks, less allowance for loan losses	5,490	54,480	44,060	10,687	9,030	(845)	122,902
Securities held for trading	18,238	-	-	-	-	-	18,238
Securities purchased under agreements to resell	1,247	-	-	-	-	-	1,247
Loans and advances to customers, less allowance for loan losses	56,371	236,102	18,331	8,348	-	(14,083)	305,069
Investment securities, less allowance for impairment losses	6,730	31,348	-	-	-	(2,059)	36,019
Fixed and intangible assets, less accumulated depreciation	67,504	-	-	-	-	-	67,504
Other assets, less allowance for losses	8,069	1,039	66	39	8	(689)	8,532
TOTAL ASSETS	189,346	344,702	64,283	19,892	12,478	(17,676)	613,025
LIABILITIES							
Due to the NB RB	-	301	23	45	2,992	-	3,361
Loans and advances from banks	18,930	70,126	975	840	166	-	91,037
Securities sold under agreements to repurchase	3,435	-	-	-	-	-	3,435
Government loans	23	-	-	-	-	-	23
Customer accounts	91,028	236,530	62,738	17,137	6,306	-	413,739
Debt securities issued	4,977	-	-	6	-	-	4,983
Provisions	-	-	-	-	-	1,923	1,923
Deferred income tax liabilities	11,392	-	-	-	-	-	11,392
Other liabilities	2,817	326	87	215	6	-	3,451
TOTAL LIABILITIES	132,602	307,283	63,823	18,243	9,470	1,923	533,344
OPEN POSITION	56,744	37,419	460	1,649	3,008		

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

As of 31 December 2004 precious metals balances include gold in vault in the amount of BYR 97 million and platinum deposited in NB RB in the amount of BYR 3,056 million.

As of 31 December 2003 precious metals balances include gold in vault in the amount of BYR 43 million and platinum deposited in NB RB in the amount of BYR 3,157 million.

Market Risk

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

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, to industry and geographical segments. Limits on the level of credit risk by borrower are reviewed and approved monthly by the Board. The exposure to any one borrower is also restricted by limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guaranties. Credit risk and the value of collateral are monitored on a continuous basis.

Commitments to extend credit represent unused portions of loans and credit lines, guarantees and letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

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Geographical concentration

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

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	Undefined (incl. allowance for losses and impairment)	2004 Total BYR million
ASSETS						
Cash and balances with the NB RB	56,852	-	-	-	-	56,852
Precious metals	97	-	-	-	-	97
Loans and advances to banks, less allowance for loan losses	49,451	5,921	61,505	374	(542)	116,709
Securities held for trading	10,088	-	-	-	-	10,088
Loans and advances to customers, less allowance for loan losses	365,074	-	-	-	(16,155)	348,919
Investment securities, less allowance for impairment losses	8,579	-	-	-	(717)	7,862
Fixed and intangible assets, less accumulated depreciation	69,490	-	-	-	-	69,490
Other assets, less allowance for losses	10,063	-	-	-	(716)	9,347
TOTAL ASSETS	569,694	5,921	61,505	374	(18,130)	619,364
LIABILITIES						
Due to the NB RB	541	-	-	-	-	541
Loans and advances from banks	13,338	22,661	360	50,307	-	86,666
Securities sold under agreements to repurchase	3,036	-	-	-	-	3,036
Government loans	20	-	-	-	-	20
Customer accounts	418,707	1,870	234	4,836	-	425,647
Debt securities issued	847	-	-	-	-	847
Provisions	-	-	-	-	3,905	3,905
Deferred income tax liabilities	4,592	-	-	-	-	4,592
Other liabilities	1,347	-	-	2,556	-	3,903
TOTAL LIABILITIES	442,428	24,531	594	57,699	3,905	529,157
NET BALANCE SHEET POSITION	127,266	(18,610)	60,911	(57,325)		

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	Undefined (incl. allowance for losses and impairment)	2003 Total BYR million
ASSETS						
Cash and balances with the NB RB	53,471	-	-	-	-	53,471
Precious metals	43	-	-	-	-	43
Loans and advances to banks, less allowance for loan losses	31,536	20,499	71,672	40	(845)	122,902
Securities held for trading	18,238	-	-	-	-	18,238
Securities purchased under agreements to resell	1,247	-	-	-	-	1,247
Loans and advances to customers, less allowance for loan losses	319,152	-	-	-	(14,083)	305,069
Investment securities, less allowance for impairment losses	33,970	-	-	4,108	(2,059)	36,019
Fixed and intangible assets, less accumulated depreciation	67,504	-	-	-	-	67,504
Other assets, less allowance for losses	9,221	-	-	-	(689)	8,532
TOTAL ASSETS	534,382	20,499	71,672	4,148	(17,676)	613,025
LIABILITIES						
Due to the NB RB	3,361	-	-	-	-	3,361
Loans and advances from banks	9,619	18,595	815	62,008	-	91,037
Securities sold under agreements to repurchase	3,435	-	-	-	-	3,435
Government loans	23	-	-	-	-	23
Customer accounts	405,585	1,726	1,631	4,797	-	413,739
Debt securities issued	4,983	-	-	-	-	4,983
Provisions	-	-	-	-	1,923	1,923
Deferred income tax liabilities	11,392	-	-	-	-	11,392
Other liabilities	3,451	-	-	-	-	3,451
TOTAL LIABILITIES	441,849	20,321	2,446	66,805	1,923	533,344
NET BALANCE SHEET POSITION	92,533	178	69,226	(62,657)		

OPEN JOINT STOCK COMPANY “BELVNESHECONOMBANK”

33. UNCERTAINTY

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

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

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

34. EVENTS AFTER THE BALANCE SHEET DATE

Dividends in the amount of BYR 5,319 million for the year 2004 were declared and paid in March 2005. In accordance with IAS 10 "Events after the balance sheet date", these dividends have not been accrued in the financial statements for the year ended 31 December 2004.

CONTACT INFORMATION

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