
**Annual Report
2005**

BELVNESHECONOMBANK

# CONTENTS

*Dear Shareholders, Clients and Business Partners,*

*Belvnesheconombank Supervisory and Management Boards are pleased to submit to your attention the Annual Report about the Bank s operations in 2005.*

*During the past year, the Bank was consistent and steadfast in implementing its strategic objective that of financing the real sector of the Belarusian economy. The Bank channeled considerable resources to priority government programs, investment and socially significant projects. Loans were also extended to the SME sector, trading and catering businesses, and individuals for home-building/acquisition and consumer needs.*

*Concerted efforts were taken to enhance the financial position and competitiveness of the Bank. Its resource base grew by nearly one third. The amount of borrowed household funds rose by 37%.*

*The cornerstone principle of the Bank s lending policy was providing support to the main GDP-generating industries to upgrade their production base, improve economic performance and create new jobs. In 2005, the Bank s lending to the country s economy exceeded Br 940 billion. Over half the amount was lent to companies in the petrochemical, machine-building and processing sectors engaged in the production of exportable and import-substituting goods.*

*The quality of the loan portfolio was maintained at a high level with doubtful loans kept at 1.5%. There was a considerable decrease in large aggregate credit risk exposures.*

*The total amount of foreign loans on-lent by Belvnesheconombank in 2005 amounted to over EUR 21 million. Under a new agreement signed with Mediobanca-Banca di Credito Finanziario S.p.A., the aggregate loan facility available to finance promising domestic projects under the Belarus government guarantee was increased by EUR 50 million. The development of mutually advantageous relations with international financial institutions and banking community is facilitated by the Bank s correspondent banking network that embraces over 600 banks in 81 countries.*

*Intensive application of advanced information technologies over the year made it possible to offer our clients a broad spectrum of top-quality banking products and services. New currency exchange offices and cash-and-settlement centers rendering a wide range of retail products were opened to maximize public access to banking services. The Bank marketed over 20 types of foreign currency and Br deposit arrangements offering a variety of attractive terms and conditions. The past year saw an increase in precious metal trading.*

*The Bank continued to expand its bankcard business. In November of 2005, VISA International awarded the Bank an honorary diploma for its substantial contribution to the development of the VISA card market and promotion of cashless payments in Belarus.*

*Viewed overall, our business performance in 2005 has convincingly proved the soundness of the strategic vision articulated by the Bank. Owing to it, we have laid down a firm foundation for a further financial advancement of the Bank, remaining invariably loyal to such core client management principles as transparence and openness, responsiveness and reliability, high-quality service provision and client-focused approach.*

*The goal set by the Bank for the year 2006 is to build up its financial potential and competitiveness, enhance its business reputation and international standing, and ensure a coordinated and efficient work of all its structural units. It is planned to increase equity capital and enlarge sources of finance, expand the loan portfolio, apply a more flexible interest rate policy, implement international standards of banking business, promote state-of-the-art organizational and corporate governance technologies, and reduce operating costs.*

*Belvnesheconombank Supervisory and Management Boards are indebted to all shareholders, clients and business partners for a mutually beneficial and fruitful cooperation. We are confident that our present practices of promoting business relations will gain a new momentum, giving more impetus to the Bank s business progression, facilitate the implementation of our immediate and longer-term objectives, contributing to Belvnesheconombank s prestige and credibility.*

*On behalf of*

| | |
|---|---|
| *The Supervisory Board* | *The Management Board* |
| *V. N. Drazhin* | *G. A. Egorov* |
| *Chairman* | *Chairman* |

# PRINCIPAL ECONOMIC AND MONETARY TRENDS IN BELARUS IN 2005*

**Macroeconomic overview**

In 2005, the economic and monetary situation was determined by such positive factors as continued qualitative and quantitative improvements in core economic indicators, strengthening of the Belarusian Ruble (Br) vis-a-vis foreign currencies and a decline in inflation.

In 2005, GDP grew by 9.2% at comparable prices, that in the manufacturing sector rose by 10.4%.

Investment in fixed assets amounted to Br 14.8 trillion, i.e. 23.2% as high as in 2004. 65.7% of all the investment went into capital goods. Domestic sources accounted for 97.5% of the total amount invested, while foreign investment totaled USD 174.4 million.

Long-term loans newly issued by domestic banks over the year reached Br 4 trillion. As at January 1, 2006, the amount of long-term investment loans within the total lending volume was Br 2.68 trillion (66.6%), with loans denominated in the national currency accounting for 61.2% of the total.

Foreign trade in goods and services reached USD 36.1 billion with exports accounting for USD 18.1 billion and imports USD 18 billion in the equivalent. Compared with the year before, foreign trade in goods and services grew 109.2% at actual prices, with exports reaching 116.8% and imports 102.5%.

Foreign trade in goods and services posted a positive balance of USD 164.6 million.

Over the year, the national budget received Br 30.8 trillion in revenues. The key factor that contributed to an increase in budget revenues was due to the implementation of the VAT country-of-destination principle in the trade with Russia, resulting in an additional budget revenue of Br 1.1 trillion. The national budget deficit was Br 150 billion. The budget deficit was financed through the issue and sale of government debt paper that generated Br 950 billion.

Pre-tax profits in the manufacturing sector amounted to Br 6 trillion, i.e. 41.3% as much as in 2004. Net profit reached Br 3.8 trillion, i.e. 40.2% on the year before, with manufacturers price-rise of 12.1% over the period under review. The share of loss-making companies in the manufacturing sector declined from 25.4% in 2004 to 5.5% in 2005.

As at January 1, 2006, overdue accounts payable amounted to Br 2 trillion, or 24.3% of the total accounts payable, increasing by 0.8% compared with January 1, 2005. Cost efficiency of manufactured goods sold in 2005 rose to 15.4%.

Household cash earnings reached Br 37.8 trillion, i.e. 28.1 % as much as in 2004. Real household cash earnings increased 16.1% compared with the previous year.

CPI was 108% and averaged 0.6% per month, i.e. on a par with the lower benchmark set for the year 2005.

Household term and call deposits in the national currency grew by Br 1.3 trillion, or 56.5%, and

* Analytical data presented on pp. 6-9 is based on the data of the National Bank of the Republic of Belarus

reached Br 3.7 trillion as at January 1, 2006. Over the year, the share of long-term placed funds in newly opened household deposits reached 28.9% against 6.6% in 2004. Foreign currency household deposits increased by USD 151.1 million, or 21.2%, and reached USD 864.2 million. Overall, the amount of funds borrowed from the general public increased 43.8% during 2005.

**Monetary Overview**

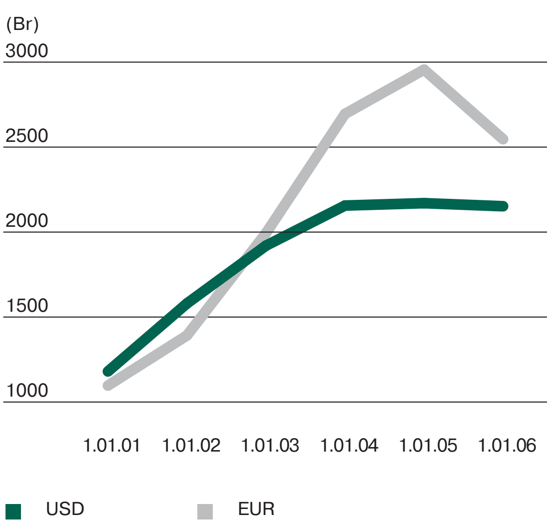
The accounting year witnessed a steady progress in the monetary sector. The Br tangibly rallied against foreign currencies, while Br money supply increased. Interest rates continued their downward slide in the financial market, while efforts were taken to promote household savings in the national currency.

The official exchange rate of the Br to the Russian Ruble strengthened by 3.9%, to the US Dollar by 0.8%, and to the EURO by 13.7%. Foreign currency supply exceeded demand by USD 416.4 million.

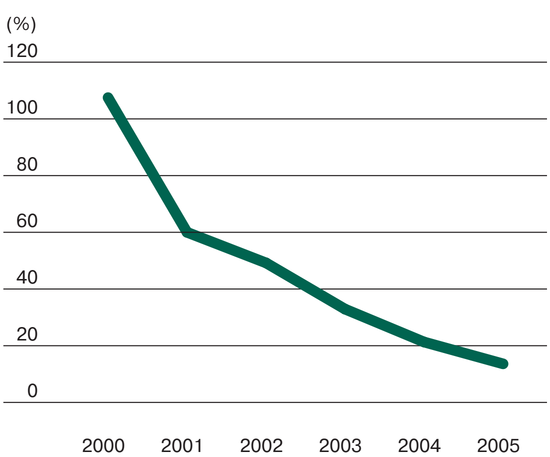
Economic entities resident in Belarus sold USD 9.3 billion worth of foreign currency against USD 6.9 billion in 2004. Their demand for foreign currency went up by 25.1% compared with the year before. Net foreign currency sales by legal entities doubled to reach USD 1.9 billion.

The Br money stock was up by 59.5% to reach Br 8.6 trillion, its share within the broad money stock rose to 68.4% from 61% as at January 1, 2005. Cash in circulation increased by 50.5% and exceeded Br 2 trillion by the start of the year 2006. Its share within the Br money stock amounted to 23.4%, and was 16% within the broad money stock. Br money stock in use (cash in circulation and transferable Br accounts with banks) grew by 58% over the year, while its share

**Br Exchange Rate Dynamics**




**Average Annual Refinancing Rate of the National Bank**



within the Br money stock fell to 57% and increased within the broad money stock to reach 38.9%. Transferable accounts within the Br broad stock swelled by 65.3% to reach Br 2.9 trillion, while corporate and household time deposits climbed by 61.7%. Investment in securities issued by the banks rose by 29.1% over the accounting year.

Broad money stock went up 42.2% and stood at Br 12.6 trillion as at January 1, 2006, while the amount of foreign currency within the broad money stock rose by 16.2% and reached USD 1.89 billion. However, its share within the broad money stock went down to 31.6%. Enlargement of the broad money stock was due to an increase in household time deposits, balances remaining in corporate current accounts and cash in circulation. Household and corporate deposits in foreign currency increased by 15.3% and amounted to Br 1.8 billion at the start of 2006. The amount of foreign-currency denominated securities issued by the domestic banks slipped by 6.1%.

During 2005, the National Bank refinancing rate decreased from 17% to 11% p.a. and averaged 13.6% p.a. over the year.

Interest rates applied to new Br time deposits went down from 17.3% to 8.8% p.a., with interest rates set for household deposits sliding from 17% down to 11.6% (in real terms they rose by 0.3 percentage points to 6.4% p.a.).

Interest rates charged on new Br loans decreased from 20% to 13.4% p.a. (in real terms they averaged 8.6% p.a. in 2005 against 10.3% in 2004).

An increase in real interest rates applied to household deposits made Br savings more attractive to the general public.

A decrease in nominal and real loan interest rate values made corporate and retail loan borrowing more affordable.

Income generated by new forex time deposits declined from 7.4% to 6.2% p.a., that from household deposits was down from 8% to 7.4% p.a.

Average interest rate applied to newly issued loans in foreign currency rose from 10.1% to 10.6%. This increase in the cost of foreign currency loans was prompted by a rise in USD and EUR discount rates enacted by the US Federal Reserve System and the European Central Bank.

**Banking Industry of Belarus in 2005**

As at January 1, 2006, the banking industry of Belarus comprised 30 banks. 26 banks were with foreign equity participation, including nine wholly foreign-owned banks. Six banks were registered in free economic zones. The branch network was reduced by 23 branches and currently embraces 440 branches. There are twelve representative offices of foreign banks in Belarus.

Foreign equity participation in the domestic banks accounted for 9.3% of their authorized capital, with Russian capital making up 2.9% of the total. In 2005, foreign investment in the authorized capital of the local banks amounted to USD

1.3 million and EUR 1.6 million. At the start of 2006, the state accounted for 66.2% (Br 1.9 trillion) of the authorized capital of ten banks. During 2005, the aggregate authorized capital of the domestic banks increased by 36.2% and reached Br 2.9 trillion.

In nominal terms, equity capital of commercial banks went up 39% and amounted to Br 4 trillion as at January 1, 2006. In real terms, it increased by 28.7%.

The resource base of the banks grew by 40.8% and amounted to Br 20.5 trillion. In real terms, it increased by 30.4%. As at January 1, 2006, the largest contributors to the banks resource base were household and corporate deposits accounting for 26.9% and 23.8%, respectively.

In 2005, the banking industry of Belarus generated a profit of Br 215 billion, 17.5% as much as in 2004. Return on assets in the banking industry was 1.25% against 1.45% in 2004, while return on equity was 6.8% against 7.75% the year before. The decline in return was due to the enlargement of authorized capital carried out by most of the core banks (Belagroprombank, Belarusbank, Priorbank, Belpromstroybank and Belinvestbank).

The banks loan portfolio increased by 37.2% and amounted to Br 12.5 trillion as at January 1, 2006. The share of long-term loans went up 47% and reached Br 6.4 trillion at the start of 2006. Long-term loans accounted for 51.5% of the total loans outstanding. Br-denominated loans accounted for 63% of the total loan portfolio, they grew by 54% and reached Br 7.9 trillion in the accounting year. Lending in foreign currency increased by 15.7% and amounted to the equivalent of Br 4.6 trillion. Br 1.1 trillion was lent by the banks to the home-building sector, i.e. 22.7% as much as the year before. Bank loans accounted for 36.9% of the total funds channeled to the home-building sector.

As at January 1, 2006, doubtful loans and equivalent indebtedness within the total amount of loans outstanding came down to 1.8%.

At the start of 2006, there were 3.2 million plastic cards of international and domestic payment systems in circulation, 1.5 times as many as the year before. The number of merchants accepting bankcard payments for goods and services increased by 1.6 times.

## SUPERVISORY BOARD

| | |
|---|---|
| Vladimir DRAZHIN | Deputy Prime Minister of the Republic of Belarus<br>Chairman |
| Andrey ARSHINOV | Deputy Chairman of the Management Board,<br>OAO Natsionalny Kosmichesky Bank, Moscow<br>Deputy Chairman |
| Pavel KALLAUR | First Deputy Chairman of the Management Board,<br>National Bank of the Republic of Belarus<br>Deputy Chairman |
| Nikolay ANDRIANOV | General Director, Belarusian Steel Works, Zhlobin<br>Member of the Supervisory Board |
| Loran ARINICH | General Director, ZAO Pinskdrev, Pinsk<br>Member of the Supervisory Board |
| Sergey BULGAKOV | Director of the Legal Department, ZAO Kaskol, Moscow<br>Member of the Supervisory Board |
| Anatoly GAVRILENKO | General Director, ZAO Lider, Moscow<br>Member of the Supervisory Board |
| Aleksandr KERNOZHITSKY | Director of the Financial Department,<br>Minsk City Executive Committee<br>Member of the Supervisory Board |
| Aleksandr KORSHUNOV | Vice President, ZAO Kaskol, Moscow<br>Member of the Supervisory Board |
| Tatyana POLEGOSHKO | Director of the Banking Operations Regulation Directorate,<br>National Bank of the Republic of Belarus<br>Member of the Supervisory Board |
| Anatoly SVERZH | First Deputy Minister of Finance<br>of the Republic of Belarus<br>Member of the Supervisory Board |

Georgy EGOROV

*Chairman*

Valentin ZAYASH

*First Deputy Chairman*

Dmitri KOULEVATSKY

*Deputy Chairman*

Serguei SHCHERBAK

*Deputy Chairman*

Vladimir ZHURBA

*Deputy Chairman*
*Director of Personnel Department*

Yuri TYAVLOVSKY

*Deputy Chairman*
*Director of International Department*

Anatoly BONDAREV

*Director of Business Development and Coordination Department*

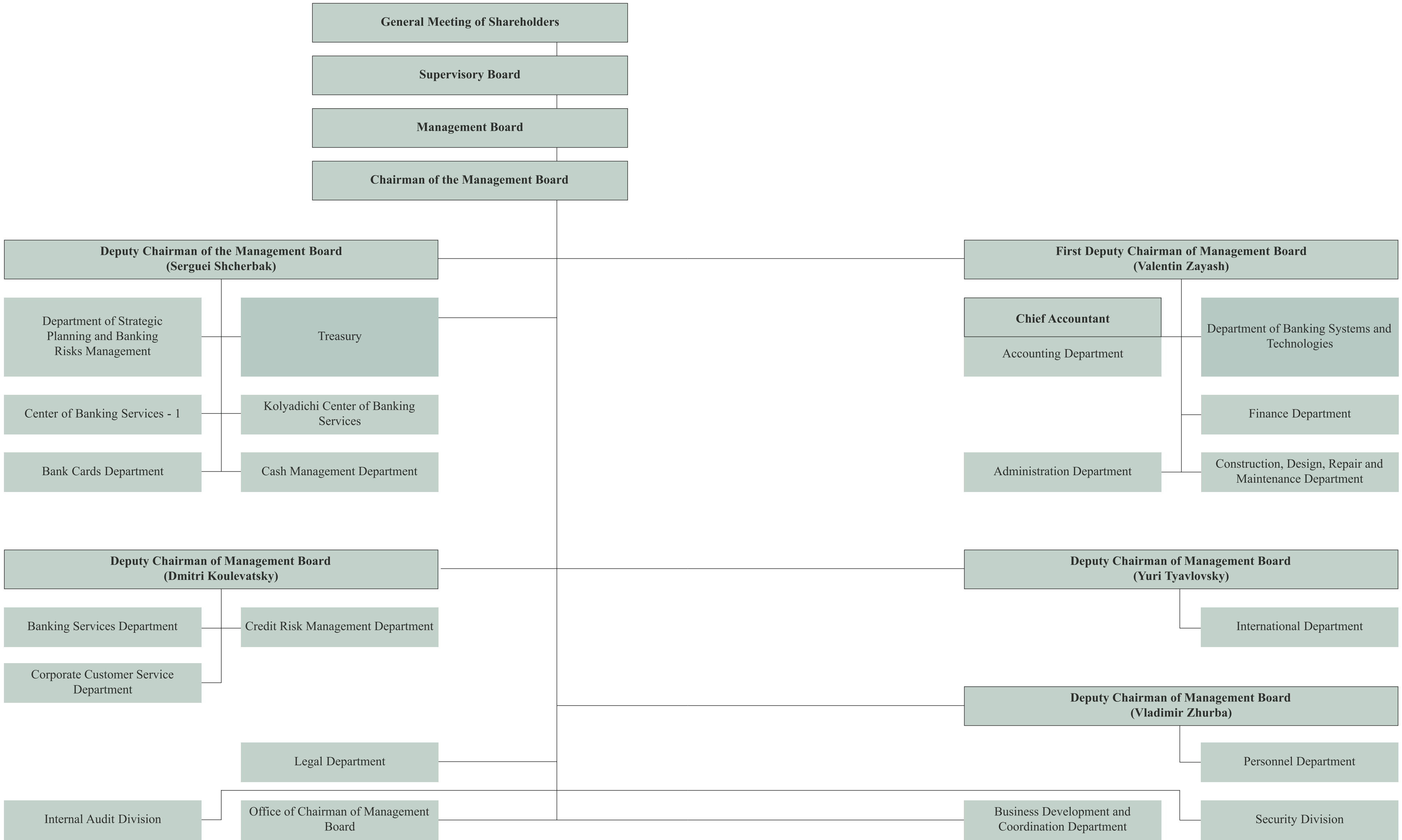
Natalya SYUBAROVA

*Director of Finance Department*

Georgy TUFATULIN

*Director of Credit Risk Management Department*

# ORGANIZATIONAL CHART



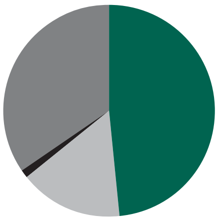
# AUTHORIZED CAPITAL AND SHAREHOLDERS*

As at January 1, 2005, the Bank s authorized capital amounted to Br 24,157.9 million. Belvnesheconombank s shareholders comprised over 760 corporate entities and nearly 44,000 individuals. State-sector companies and organizations accounted for 48.4% of the authorized capital, with the Belarus National Bank holding a 33.5% stake, the Ministry of Finance of Belarus a 6.3% stake, and other state-owned organizations and companies holding between them 8.7% of the shares. Foreign equity investments amounted to 34.6%.

Equity stakes of over 1% were held by:

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

**Authorized Capital by Type of Ownership**



- State sector - 48.42%
- Private sector (less individuals) - 15.78%
- Individual investors - 1.24%
- Foreign investors - 34.56%

* Analytical data presented on pp. 14-51 is prepared on the basis of regulatory legal acts of the National Bank of the Republic of Belarus and Belvnesheconombank management accounting statements.

## RESOURCE-BUILDING POLICY

Implementing our short- and long-term objectives, we managed to attain a 30% growth in our resource base over the year under review. That was made possible owing to:

a further expansion of business with large corporate customers, promotion and consolidation of newly-established and long-standing partnership relations with SME-sector businesses and joint ventures by increasing service sales, offering a broader range of banking products and services, and applying advantageous and highly competitive interest rates to their time deposits; and

an increase in retail service volumes and improvements in banking services for the public as a result of the introduction of new types of deposits based on more attractive and competitive conditions of placing and withdrawing funds and closing deposit accounts, as well as the application of a flexible interest rate policy.

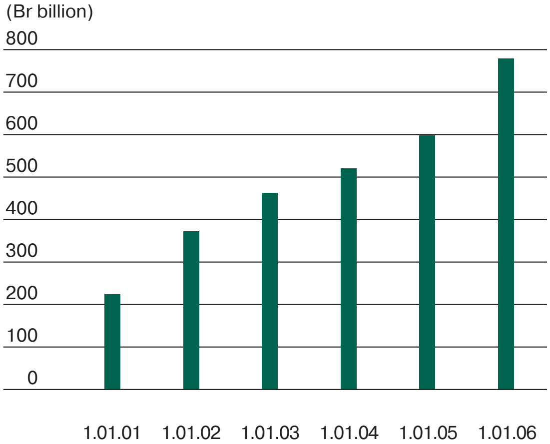
Over the year, household deposits remained to be the steadiest source of replenishing the resource base of the Bank. They increased 1.4 times and amounted to Br 241 billion overall. Br deposits grew 1.5 times, those in foreign currency went up by 35%.

A number of domestic companies opened their deposit accounts with Belvnesheconombank. Funds placed in corporate guarantee deposits for use in documentary transactions rose more than three times. There was an expansion in time-deposit business with clients of other banks. As a result, funds placed in corporate deposits increased by 26.5% and amounted to Br 102.3 billion, those in current accounts increased 1.6 times and amounted to Br 225.6 billion.

Owing to the growth in long-term funds placed with the Bank, we reduced our short-term interbank borrowings.

As a result of expansion in the Bank s funds our own capital within the resource base increased by 14% and reached Br 81.9 billion.

**Resource Base**



## LENDING OPERATIONS

In line with its strategic objectives of financing the Belarusian economy, Belvnesheconombank consistently and purposefully committed considerable funds to the implementation of priority state programs, investment and socially significant projects.

Constant financial support was rendered to the core GDP-generating petrochemical, machine-building and processing sectors, including export-oriented companies and efficiently-performing SME-sector businesses with a proven financial track record with the Bank. There was an increase in the amount of lending to the public.

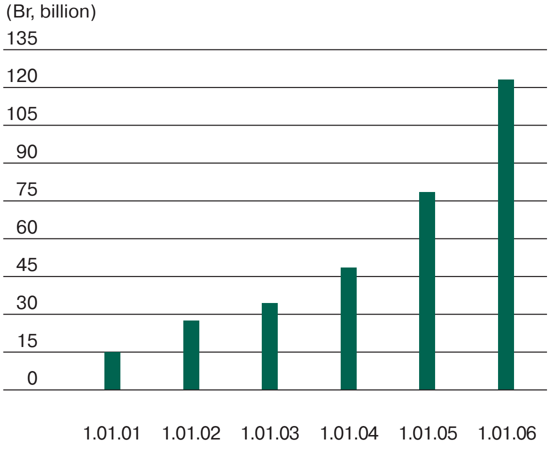
The amount of customer loans outstanding grew 14.2%, with that in Br going up to 57.1%. As at January 1, 2006, total loans outstanding amounted to the equivalent of Br 410.3 billion, including USD 112.3 million, EUR 14.4 million and RUR 116.5 million disbursed in foreign currency.

The amount of loans and leasing services provided by the Bank during the accounting year totaled the equivalent of Br 942.8 billion against Br 926.9 billion in 2004.

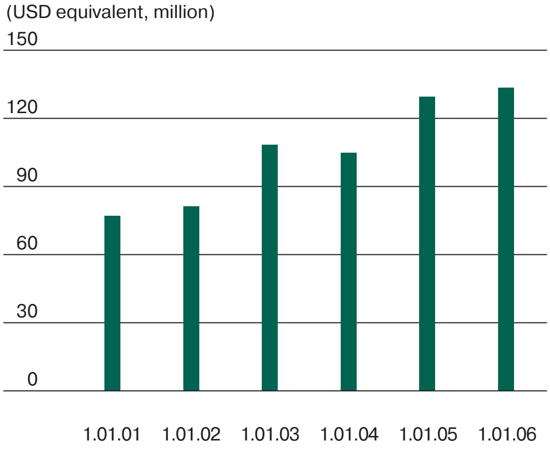
Among the Bank s main borrowers were Khimvolokno-Mogilev, Horizont-Minsk, Lakokraska-Lida, Spartak-Gomel, Savushkin Produkt-Brest, Metalware Factory-Rechitsa, Neman Tobacco Factory-Grodno, Avtogydrousilitel-Borisov, Khimvolokno-Svetlogorsk, Belryba-Minsk, and MAZ-MAN Joint Venture-Minsk.

Loans of USD 8.9 million and EUR 5.2 million allowed the Metalware Factory-Rechitsa to launch new products and substantially improve its economic efficiency. The company s output

**Br-denominated Loans Outstanding**




**Loans Outstanding Denominated in Foreign Currency**



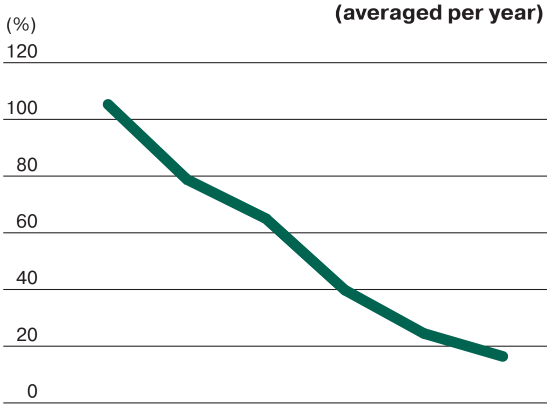
rose by 61.8% , with earnings in accounts with Belvnesheconombank going up 1.9 times to total the equivalent of USD 27.4 million. In 2005, the company won a government award for quality.

Owing to loans of USD 1.7 million and Br 1.5 billion, Pinskdrev increased production volumes and boosted its earnings 1.3 times. Its exports reached USD 51.4 million, i.e. 22.4% as much as in 2004.

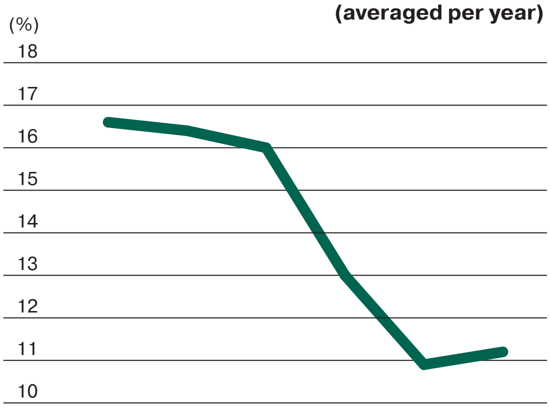
Considerable lending resources were channeled to companies within the Belneftekhim Concern. Under this line of credit support, loans of USD 20.0 million and Br 29.9 billion were granted to Khimvolokno-Mogilev to purchase feedstocks and materials. They allowed the company to raise production by 22.8% and increase the share of export products within its total output by 62.7%. A loan of USD 4.8 million extended to Khimvolokno-Svetlogorsk made it possible to increase production volumes by 12.6%, raise earnings by 13.7% and exports by 31.3%. Lending and lending-equivalent transactions with Lakokraska-Lida amounted to USD 4.5 million, RUR 32.0 million and Br 813 million. During 2005, the company raised its output by 27.7%, posted a 18.5% increase in earnings, boosting its export earnings by 50%.

The Bank actively promoted its business relations with meat and milk-processing companies. The amount of funds lent to this sector over 2005 totaled the equivalent of Br 82.9 billion. One of the country s leaders in this sector, Savushkin Produkt, received loans of USD 1.2 million, EUR 0.6 million and Br 49.5 billion. As a result, the company attained a high rate of development and considerably improved on its core economic indicators. Output and earnings grew 1.3 times, and profit rose 2.9 times.

**Interest Rates Charged on Newly-issued Br-Denominated Short-term Loans (averaged per year)**




**Interest Rates Charged on Newly-issued Short-term Loans Denominated in Foreign Currency (averaged per year)**



Owing to a successful penetration into Russian markets, its exports grew 1.3 times and reached USD 19.4 million.

Lending to the agroindustrial sector increased 12.9%.

Over the accounting year, Belvnesheconombank provided investment loans in the equivalent of Br 102.7 billion to finance retooling and upgrading projects in the country s core industries, with Br 47.5 billion out of its own resources and Br 55.2 billion out of foreign loan proceeds.

Jointly with the Belarusian Network of Telecommunications, the Bank embarked upon the implementation of the project Third GSM-Operator in the Republic of Belarus . An investment credit line of USD 0.5 million was set up and a further USD 0.3 million was invested into the company s working capital. The Bank provided financing in the equivalent of USD 36.8 million under an assignment of proceeds (factoring) arrangement, thereby exceeding the 2004 level by 55%.

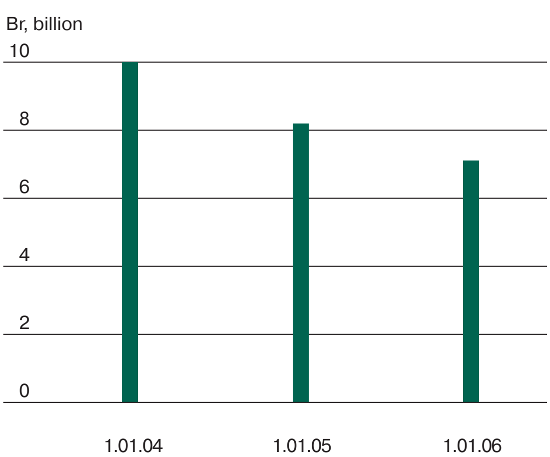
Financial support to the country s economy was actively provided by means of financial leasing.

Within the framework of the 2005 Program of State Support for Small Businesses in the Republic of Belarus, the Bank lent a total of Br 156.2 billion to small and medium enterprises, i.e. 27% as much as in 2004.

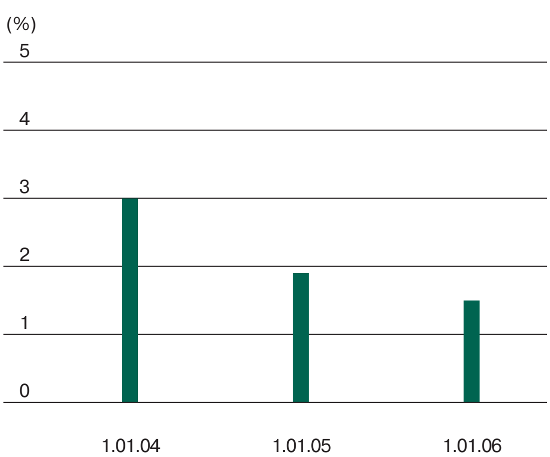
The Bank continued to increase lending to the public for home-building/purchase and other consumer purposes.

Improvements were attained in the quality of the loan portfolio. Problem loans within the

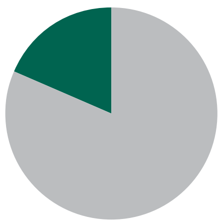
**Problem Loans**




**Portion of Problem Loans in Loan Portfolio**



**Structure of Loans by Type of Borrowers' Ownership, 2005**



Private Sector - 81.5%

State Sector - 18.5%

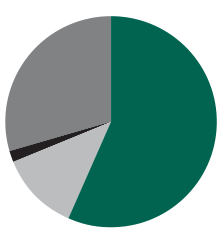
loan portfolio decreased by 0.54 percentage points to 1.74%. As regards their classification, rescheduled loans accounted for 0.40% of the loan portfolio, and overdue and doubtful loans 0.15% and 1.19%, respectively. The Bank had in place a properly maintained special provision for possible losses of assets exposed to credit risk. As at January 1, 2006, the special provision amounted to the equivalent of Br 5.7 billion.

### Overseas Credit Lines

In 2005, Belvnesheconombank continued to manage foreign loans previously granted under Belarus government guarantees to finance domestic investment projects.

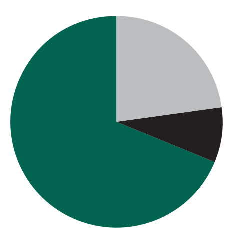
The amount of funds disbursed in 2005 under previously signed government-guaranteed loan agreements with foreign banks totaled EUR 20.8 million. These funds were used to finance projects at Khimvolokno-Mogilev and Belarusian State University.

**Structure of Loans by Industry, 2005**



Manufacturing - 56.6 %
Trading and Catering - 12.2 %
Agriculture - 1.7 %
Other Industries - 29.5 %

**Structure of Problem Loans as at January 1, 2006**



Rescheduled Loans - 22.8%

Overdue Loans - 8.4%

Doubtful Loans - 68.8%

As a result of efforts undertaken by Belvnesheconombank jointly with the Belarus Embassy in Italy and the Belarus Ministry of Foreign Affairs an understanding was reached with Mediobanca di Credito Finanziario S.p.A to increase the existing credit line from EUR 20 million to EUR 70 million. A relevant agreement was signed and brought into force in 2005.

In 2005, the Bank put in place a USD 407.1 thousand financing arrangement for a Savushkin Produkt project following a loan deal with BRE Bank SA, Poland, concluded without a government guarantee.

Financial support and provision of international payment services to Belarusian exporting companies are an important area of Belvnesheconombank s business operations that is based on our competitive advantage in international settlements and documentary business gained owing to many years experience and expertise in performing payments via a broad network of foreign partner banks and correspondent accounts. The geographical spread of the Bank s documentary business transactions is yet another testimony to the Bank s advancement as an expert and full-fledged participant in this segment of the market.

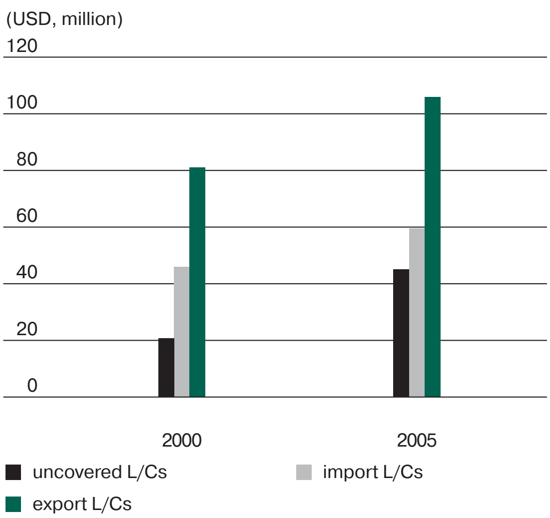
In the past year, the Bank focused its efforts on streamlining its network of correspondent accounts, attracting funds of non-resident banks, introducing more advanced settlement procedures and providing a full suite of services in line with the best practices in international banking.

Within its trade finance business, the Bank issued 290 import L/Cs totaling the equivalent of USD 59.5 million. Considerable effort went into promoting the application of uncovered L/Cs and short-term L/C financing by foreign banks. In 2005, 260 uncovered L/Cs were issued totaling USD 45 million.

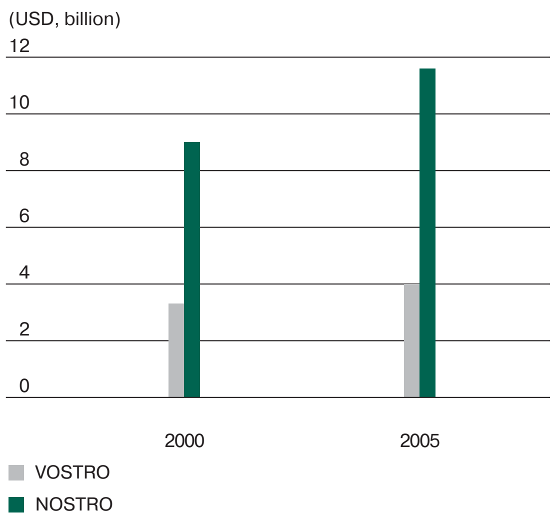
Uncovered documentary and interbank transactions were effected using credit lines set up by foreign banks. Of the total of 250 L/Cs confirmed, 240 L/Cs in the amount of USD 41.7 million were confirmed utilizing foreign credit lines, i.e. USD 17.8 million as much as the year before. In addition, short-term financing of 45 L/Cs in the amount of USD 14.3 million was arranged, 8% more than in 2004. There was also an increase in the number of foreign banks participating in our L/C business transactions.

Utilization of uncovered L/Cs and financing schemes in international settlement transactions

**Import and Export L/C Business Dynamics**




**VOSTRO and NOSTRO Account Turnover (freely/non-freely convertible currencies)**



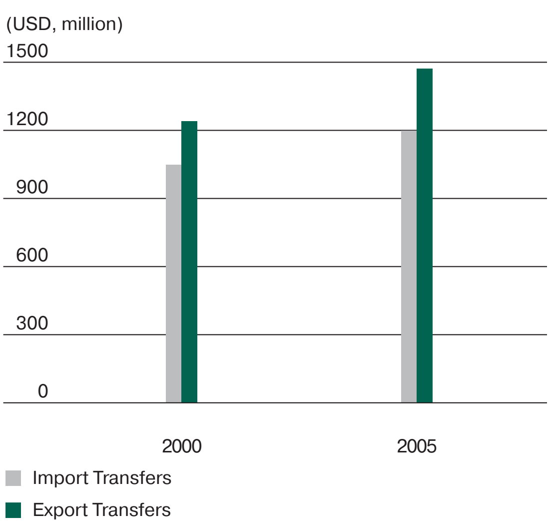
allowed the Bank to save on resources otherwise required to credit those of the clients that were in need of additional funds and attract new clients interested in using such instruments in their import transactions.

In effecting documentary operations, the Bank attracted funds from its clients as security. An average daily balance of funds attracted to perform documentary operations amounted to over USD 19.6 million.

Over 2005, the Bank issued 147 payment guarantees and processed 179 export L/Cs. Export L/Cs were used in international transactions of large corporate entities from the country s core industries.

A client request inventory was set up within the International Department to handle applications for loans under credit facilities made available to Belvnesheconombank by foreign banks to finance projects with and without Belarus government guarantees. This inventory allows to rationalize client management and arrange, jointly with our foreign partner banks, the most advantageous short-term lending schemes.

**Import and Export Transfers Dynamics**



# CORRESPONDENT BANKING

In 2005, Belvnesheconombank successfully promoted cooperation with leading financial institutions in the CIS region and beyond, and also its counterparts in Belarus. Our efforts in this area were focused on securing the most favorable international settlement conditions for our clients, expanding the counteragent base and streamlining our correspondent banking network.

At the start of 2006, Belvnesheconombank had correspondent relations with over 600 banks in 81 countries.

The broad correspondent banking network was instrumental in delivering a speedy international settlement service to the Bank s customers.

For several years now, Belvnesheconombank has acted as a clearing house handling Br settlement transactions for non-resident banks in Belarus. 107 non-resident banks held correspondent accounts with Belvnesheconombank to make Br payments.

Belvnesheconombank also provided clearing services to domestic banks that effect EUR and USD settlements. 28 banks made payments through VOSTRO accounts opened with Belvnesheconombank, considerably reducing their costs and cutting transaction execution times.

While maintaining and promoting business relations with our key correspondent banks, we concentrated our efforts on searching for new counteragent banks capable to offer us and our clients the most comprehensive package of trade finance and interbank services under the most advantageous conditions.

A high level of trust enjoyed by Belvnesheconombank finds reflection in the increase in credit lines made available by leading financial institutions both inside and outside the CIS area. Especially close cooperation developed with Bayerische Hypo- und Vereinsbank AG (Munich, Germany), Commerzbank AG (Frankfurt/Main, Germany), Bank Austria Creditanstalt AG (Vienna, Austria), Vneshtorgbank, Sberbank of Russia, and Hanti-Mansiyskiy Bank (Moscow, Russia). The aggregate value of credit lines opened to finance trading transactions amounted to USD 50 million, scoring a 30% increase over the previous year.

In 2005, the Management Board of Belvnesheconombank adopted the Main Guidelines of Customer Management Policy for 2005-2010 that laid down fundamentally new strategic approaches to building customer relations, monitoring business trends, regulating customer recruitment matters, administering service delivery and improving customer satisfaction.

Our concept of corporate banking services envisages provision of such a range of services that would allow our customers to make the most of our technological, commercial and financial advantages in order to advance their business. In implementing this concept, it has always remained a matter of principle for us to respond to individual customer needs and deliver a comprehensive package of specially tailored products and services geared to the requirements of every corporate customer and its employees.

The core of Belvnesheconombank s corporate customer base consists of the country's largest companies with a strong international business focus and a dominant position in the domestic market as well as medium enterprises with part-foreign ownership. These include such companies well-known across Belarus and abroad as:

*RUP Belarusian Steel Works, RUP Minsk Automobile Plant, PO Belarusian Automobile Plant, OAO Mozyr Oil Refinery, OAO Khimvolokno-Mogilev, OAO Horizont, ZAO Atlant, ZAO Pinskdrev, OAO Lakokraska (Lida), ZAO Beltechexport, RUP Rechitsa Metalware Factory, OAO Elema, OOO Belita JV, McDonald's Restau-rants Foreign Company, Coca Cola Beverages Belorussiya Foreign Company, OAO Spartak JV, OAO Savushkin Produkt and others.*

Provision of a wide range of high-quality services led to a growing confidence in Belvnesheconombank and helped to recruit over 1,100 new customers. At the start of 2006, the Bank had over 9,800 corporate customers.

The customer base grew primarily due to attracting SMEs and companies with part-foreign ownership. Companies that, among others, opted to open their accounts with us in 2005 included:

*OOO Ernst & Young Foreign Company, OOO Belcel JV, NPOOO Radex, ZAO Mazcontractleasing, OAO ZIV Rayon Mill, ChTUP Korservis, OOO Belimpostroy, SOOO Belprommetiz, Invention Machine Foreign Company, OOO Zvezda JV, OAO Bellegpromproekt, OOO Stroyinvest, SOOO Stroitelny Torgovy Dom, Byprint Service Foreign Company, OOO Optima, OAO Rembyttekhnika Factory, and OOO Rico Tech-Center Foreign Company.*

Belvnesheconombank s policy of competitive interest rates, flexible business terms and conditions, and a variety of deposit terms made it possible to significantly expand deposit transactions. Over the year, corporate deposits increased 26.5% to Br 102.3 billion, while funds in corporate current accounts grew almost 1.6 times to Br 225.6 billion. Funds in collateral accounts opened to effect documentary operations rose more than 3 times. Over the year, borrowed corporate funds scored an almost 1.5-fold growth.

During 2005, the Belvnesheconombank web-site was upgraded and a new, Ask the Bank, service launched to render prompt information and counseling services to our customers. In addition, our customers were provided with an option to send in their comments and suggestions with regard to improving and diversifying the Bank s service mix. A new, business Partner Search, service was put in place and a customer database developed to provide information to the Bank s partners.

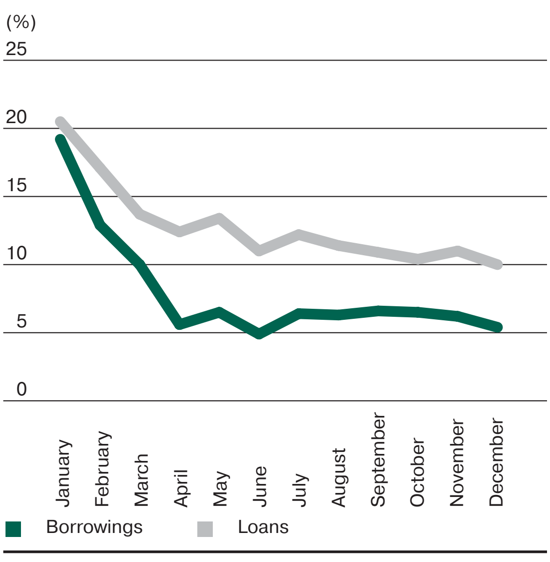
During 2005, Belvnesheconombank effected active lending and borrowing operations both in domestic and international money markets. Special emphasis was placed on maintaining short-term liquidity to ensure fulfillment of current liabilities as an important element of the Bank s activities.

Over the year, average daily Br loans amounted to Br 53.3 billion while average daily borrowings amounted to Br 34.9 billion. Average interest rates charged on loans exceeded those paid on borrowings by 4.7 percentage points.

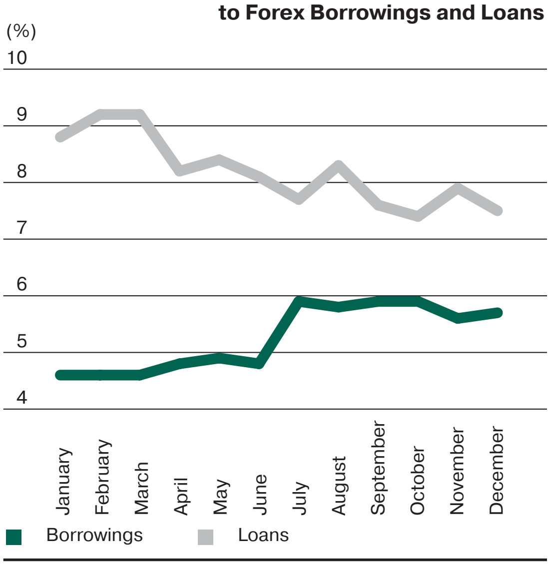
Average daily foreign exchange loans amounted to an equivalent of USD 58.6 million on average while the amount of daily borrowings averaged USD 32.9 million. Average interest rates charged on forex loans exceeded those paid on borrowings by 3.2 percentage points.

The Bank was actively engaged in forex trading in the interbank market as well as in conversion transactions. Average daily purchases at the stock and interbank forex markets amounted to USD 1.1 million, while daily sales came to USD 1.0 million.

**Interest Rates Applied to Br Borrowings and Loans**




**Interest Rates Applied to Forex Borrowings and Loans**



**Government Bond Transactions**

During 2005, Belvnesheconombank was an active trader in government debt instruments in view of higher interest rates in this market segment compared with those in the interbank market.

The Bank took part in National Bank T-bill placement auctions with purchases in the primary market totaling Br 216.5 billion. Primary market purchases of government bonds amounted to Br 19.4 billion. Over the year, the Bank effected 397 REPO and 102 'held to maturity' bond deals in the secondary market totaling Br 212.2 billion. The Bank concluded six 5-year agreements with customers providing for a comprehensive package of services in government bond market transactions.

**Transactions with Promissory Notes, Certificates of Deposit and Shares**

In 2005, Belvnesheconombank performed the following transactions:

- *issuing own promissory notes;*
- *buying (discounting) promissory notes;*
- *selling (presenting for payment) previously discounted promissory notes;*
- *settling own promissory notes including those issued by the Bank's branches;*
- *registering transactions with shares and housing vouchers;*
- *buying commercial banks certificates of deposit; and*
- *presenting for redemption (payment) of previously purchased certificates of deposit issued by other banks.*

Over the year under review, the Bank issued 445 promissory notes (including 192 deferred-payment ones at a total face value of Br 4.9 billion). Aggregated borrowings amounted to Br 3.8 billion, RUR 78.4 million, USD 677.3 thousand, and EUR 136.1 thousand. Average life of customer investment in the Bank s promissory notes was 21.4 days.

The rate of return generated by investments in Br promissory notes was 26.7% p.a., while their average life was 38.5 days.

The Bank also performed primary and secondary market purchasing transactions with certificates of deposit issued by domestic commercial banks. Return on these operations was 14% p.a., with life of investment averaging 34.8 days.

**Safe Custody Services**

The Bank's safe custody unit provided its customers with book-entry settlement and clearing services, including administration of DEPO accounts and securities transfers, provision of DEPO account statements, recording of inheritance rights to securities, management of shareholder registers, calculation and disbursement of dividends, and performance of other relevant services.

As at January 1, 2006 the Bank managed 59 DEPO account service and 50 shareholder register service agreements. Custodian services were provided directly by the Bank s safe custody unit and also through some of the Bank s branches.

Most of transactions performed by the safe custody unit involved book-entry settlement of Belarus government bonds and National Bank T-bills - in 2005 their total turnover in DEPO accounts topped 15 million items.

The bulk of DEPO accounts in the Bank s safe custody unit were used to handle the movement of these securities. Over 63,000 DEPO accounts were run for shareholders of joint stock companies whose registers were managed by the Bank.

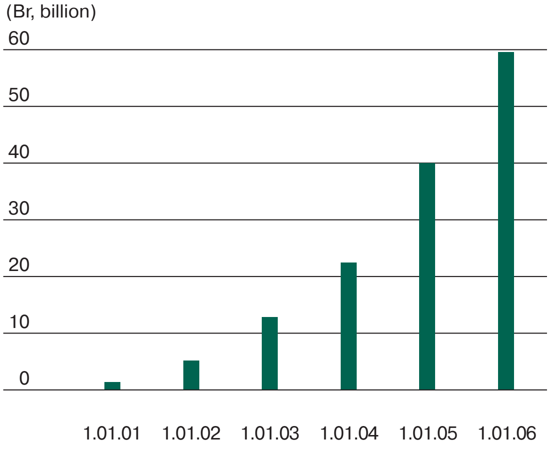
# RETAIL BANKING

Retail banking is one of Belvnesheconombank s top-priority lines of business. The Bank is strongly positioned in the retail market owing to high quality services as well as an extensive branch network and application of state-of-the-art banking technologies.

In 2005, Belvnesheconombank actively raised household funds through introducing new types of deposits, applying competitive customer-attractive interest rates and the most advantageous deposit terms and conditions. We offered our private customers over 20 types of Br- and foreign exchange-denominated deposit schemes. Over the year, Belvnesheconombank introduced a number of new types of Br-, USD- and EUR-denominated deposits.

The Bank s flexible interest rate policy and sound performance coupled with the introduction of new, more attractive, types of deposits and the application of a one-stop-shopping concept contributed to mobilizing household funds in an equivalent of Br 241 billion as at January 1, 2006. Over the accounting year, household funds raised by the Bank recorded a 136.8% growth and reached 35.2% within the Bank s aggregate mobilized resources.

**Mobilized Br Household Funds**




In order to increase earnings from retail operations and build up its resource base, the Bank continued to sign up legal entities to participate in its bankcard-based payroll programs. As at January 1, 2006 a total of 755 relevant agreements were concluded, including 368 agreements put in place in 2005. Funds in relevant current accounts topped Br 21 billion.

With a view to raising customer satisfaction and reducing processing times, the Bank introduced computerized drafting of time deposit and current (settlement) account agreements, automated printing of payment documents and crediting via the Client-Bank system of wage/salary and equivalent payments to current accounts of employees of the Bank s corporate customers.

In line with its tradition, Belvnesheconombank rendered its customers a wide range of currency conversion services, primarily selling and buying foreign currency. Overall, the volume of foreign cash purchased by the Bank from the general public amounted to USD 89.9 million scoring a 10% growth against 2004, while foreign cash sales reached USD 108.6 million against USD 83.9 million in 2004. As at January 1, 2006, the Bank s foreign-currency exchange network comprised 22 exchange offices and 107 cash desks.

Another 7 ATMs, 5 CATs and 83 POS terminals were made operational in 2005.

In order to make a comprehensive cash and settlement service more accessible to the general public, the Bank s branches expanded their network to 25 banking outlets in 2005. In addition to foreign-currency exchange transactions these outlets settle customer utility and mobile phone bills, offer cash advancement and replenishment services to bankcard holders and provide other services, thereby putting to practical use the one-stop-processing concept of customer service provision.

Under agreements with corporate service providers, the Bank s retail outlets also handle cash payments from households for services rendered. A total of 314 such agreements were concluded to process household cash payments. The amount of cash receipts delivered to Belvnesheconombank s teller offices and credited to beneficiaries accounts exceeded Br 38 billion, i.e. 18.7% more than in 2004.

In 2005, aggregate cash turnover grew by 22% to Br 1,550.3 billion, while cash receipts rose to Br 860.5 billion.

The Bank s teller offices handled Br 69.5 billion in cash receipts from for-fee services to the general public, i.e. 13% as much as in 2004, those generated by the trade sector amounted to Br 274.8 billion. Cash earnings credited to the accounts of self-employed entrepreneurs reached Br 203.1 billion. There was also an increase in cash payments under civil-law contracts.

With a view to increasing cash receipts and maintaining its competitive capabilities, the Bank constantly monitored market developments and, when necessary, modified its service fee and commission rates.

2005 saw a substantial increase in credit amounts extended to the general public and a broadening of the range of lending services, including home building/purchasing and various consumer needs options.

Over the year, household loans issued and outstanding recorded a 1.9-fold growth and amounted to Br 34.8 billion as at January 1, 2006, rising from 5.2% to 8.5% in the Bank s loan portfolio. The share of loans extended for consumer needs in the total volume of household loans grew from 66% to 75%.

Over 2005, the total amount of household loan disbursements amounted to an equivalent of Br 31.7 billion, including Br 16.4 billion in consumer loans and Br 4.5 billion in home-purchasing loans.

Belvnesheconombank consistently maintained its scale of household loan interest rates in line with the market risk situation - lower interest rates were applied to home-purchasing loans, advances made to individuals holding accounts with the Bank under payroll programs, and to individual borrowers submitting payment guarantees (sureties) from their employers.

Average annual interest rates charged on newly-issued Br loans dropped by 8.1 percentage points to 16.4% against 2004, while those on newly-issued foreign exchange loans averaged 11.2% p.a.

Belvnesheconombank carried out regular marketing assessments of the household lending sector and improved its lending methodological tools. A new consumer lending instrument was introduced  an instant loan arrangement available to buyers of Mir Fitnesa / World of Fitness Sporting and Fitness Center club cards.

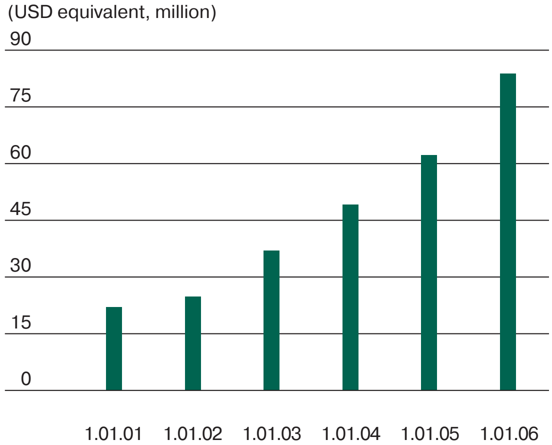
With a view to promoting sales of its banking products and services, the Bank offered discounts from August to November 2005 to payroll card holders for opening new revolving personal bank card credit lines. Customers were offered a 25% discount for a new one-year revolving personal bank card credit line and a 50% discount for that of a three-year duration. Over 2,000 credit lines were opened during this period. As at January 1, 2006, there were about 5,000 credit cards in circulation, and the amount of bankcard-based household loans outstanding topped Br 5 billion.

Belvnesheconombank is Western Union's only accredited representative in Belarus handling around one third of all Western Union money transfers in the country. In the year under review, the Bank processed 43.5 thousand money transfers amounting to USD 17.1 million. Western Union retail network was further enlarged and by the end of the accounting year Belvnesheconombank and its subagent banks ran a total of 258 retail outlets accounting for 38% of all domestic outlets in operation.

According to a business performance review conducted by Western Union in 2005, the Bank's Center of Banking Services No. 1 and Gomel regional branch were named, for the fourth consecutive year, 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).

There was a three-fold increase in gold bar trading as compared with 2004. Bullion trading is now performed by all of the Bank  s branches. The amount of gold sold by the Bank  s Head Office and branches in 2005 exceeded 30 kilograms. The Bank  s Head Office and branches in Brest, Gomel, Mogilev, Bobruisk, Kobrin, Molodechno, Novopolotsk, Pinsk, and Svetlogorsk launched a silver and platinum bar trading service, with sales reaching 4,570 grams of silver and 80 grams of platinum. Owing to the introduction of precious metal trading, the Bank  s income grew by almost Br 57 million with the total income from this business going up 3.5

**Mobilized Foreign Currency Household Funds**



times against 2004. The Bank conducted regular public-awareness campaigns and offered a variety of discounts to promote its precious metal sales.

In May 2005, Belvnesheconombank was granted a license to effect operations with precious metals and jewels pledged as collateral.

Information about Belvnesheconombank s retail products and services is displayed on advertising boards at the Bank s places of business and is also distributed via e-mail and media outlets. Using the Bank s ATM, CAT and Mobile Bank system, private customers can keep themselves informed about the status of their current accounts and effect non-cash transactions. The Bank also runs an around-the-clock phone service to inform the general public of deposit-opening terms. This information is also posted and regularly updated on the Bank s web site.

# BANKCARD BUSINESS DEVELOPMENT

2005 witnessed further advancements in Belvnesheconombank s card business development. The number of ATMs and CATs increased 38% and 34% respectively and by the year-end the Bank ran a network of 47 ATMs and 24 CATs. Meanwhile, card sales grew 31% to bring the total card circulation to 54 thousand cards.

The network of retailers and service providers accepting bankcard payments for their goods, works and services increased 72% and now embraces 454 merchant outlets. Over 300 agreements were concluded with merchants accepting payments by means of Visa and MasterCard bankcards. The Bank s ATM/CAT and merchant networks operate proceeding from a one-stop shopping principle.

In 2005, considerable effort was put into introducing new and improving existing bankcard retail services.

Holders of personal bankcards issued by the Bank can now replenish their accounts, using currencies other than the currency of their account, at cash desks and banking outlets of any Belvnesheconombank branch irrespective of where their accounts are actually held.

In the second quarter of 2005, the Bank started to issue international Visa Electron and Maestro debit cards in the national currency allowing to make payments and obtain cash advances not only in Belarus but also in virtually any country across the world.

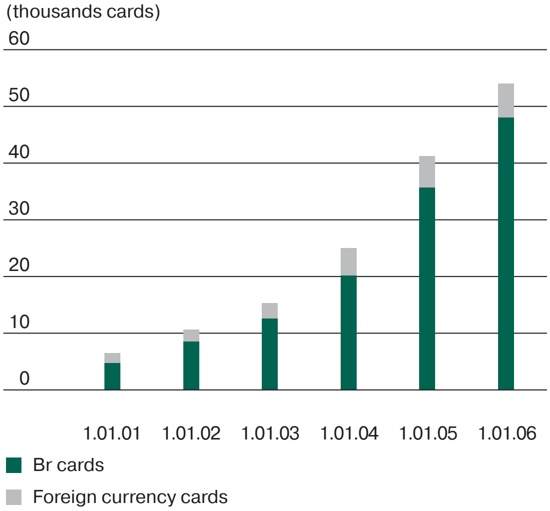
Holders of long-term foreign currency deposits with the Bank (over USD 1,000 for a period exceeding one year) are offered discounts when applying for international debit cards.

Holders of Visa cards issued by other banks can effect payments via the Bank s ATMs and CATs. Previously this service was available only to Belvnesheconombank customers and international MasterCard cardholders.

Users of the Bank s Mobile Bank service can block their cards by means of their cellphones. The card-blocking option is now also available on the Bank s web site.

There was an expansion in the geographical spread of the Bank s ATM/CAT network and the array of payment options also accessed by cellphone to settle bills invoiced by mobile operators and Internet providers in

**Number of Bank Cards in Circulation**



Minsk, Molodechno, Mogilev, Mozyr, and the settlement of Chist, Molodechno District.

Installation of ATMs and CATs at each of the Belvnesheconombank branches during the year under review spurred a steep rise in card sales and led to an increase in bankcard payment volumes. Regional Branches in Mogilev, Grodno and Brest as well as the branches in Bobruisk, Pinsk, Molodechno, and the Minsk Central Branch were particularly active in pursuing this line of business. As a result, over 10,000 more cards were put into circulation.

Belvnesheconombank continued to promote bankcard business cooperation with its partner banks, including Tekhnobank, ITI-Bank, Moscow-Minsk Bank, and BelSwissBank. The banks operated a joint network comprising 72 ATMs and 24 CATs and a Mobile Bank service. Over 2005, the aggregate number of cards issued by the five banks grew 60% to reach 72 thousand.

In June 2005, Belvnesheconombank pioneered a new MasterCard clearing format in Belarus and as a consequence was admitted by MasterCard to participate in its program of special rebates.

As a result of implementing joint projects with Visa International, Belvnesheconombank introduced three additional service options making card account balance inquiries via ATMs of other banks, issuing international cards denominated in the national currency, and effecting payments via the Bank s ATMs and CATs with cards issued by domestic and foreign banks. These options were also made accessible to Belvnesheconombank s partner banks.

Owing to its business performance in 2005 in terms of retail sales and card sales volumes, Belvnesheconombank gained admission to two Visa preferential treatment programs. In November 2005, the Bank was awarded an Honorary Diploma by Visa International For a significant contribution to the development of Visa card market and cashless payment industry in Belarus .

## BANKING TECHNOLOGIES

In 2005, Belvnesheconombank continued to improve its IT infrastructure to facilitate the Bank s ongoing business development and enhance its operational manageability and efficiency. New technological solutions and banking products were developed and implemented making it possible to considerably broaden the spectrum of services, raise customer satisfaction and streamline in-house and external document turnover. To date, the Bank operates the most advanced IT system.

During the year under review, a set of measures were implemented to:

*develop and implement software products to expand computerization of forward banking transactions and set up a unified loan portfolio database;*

*automate receipt, verification and analysis of prudential banking reports;*

*create a unified technology for a straight-through processing of currency exchange transactions in the domestic OTC forex market via the in-house EDP system;*

*develop software products to computerize processing of documentary transactions;*

*develop and implement a unified technology for the Bank s branches to accept bankcard payments for services via ATMs and CATs;*

*expand the electronic payment documents archiving capabilities and extend the list of documents subject to electronic filing;*

*regear the remote account-operating system to the new, more customer-friendly Client-Bank service format compliant with the applicable law;*

*enhance the Bank s EDP system capabilities by upgrading the IBM AS/400 servers;*

*adapt the ATM network to processing EMV cards;*

*enhance the system of security, monitoring, maintenance and administration of computers and other network elements;*

*upgrade the computer network by replacing run-down and outdated equipment to improve the reliability and integration of individual segments within the EDP network;*

*upgrade the server equipment by replacing run-down and outdated elements to improve the reliability of the SWIFT system, Client-Bank service, Bankcard Processing system, and specialist computer systems;*

*expand the network of ATMs and POS terminals;*

*upgrade specialist computer systems;*

*develop an entirely new format of communication with all specialist computer systems and regear them to new modes of interacting with the Head Office systems (the Bank s EDP system, Bankcard Processing system, etc.) in order to speed up bank transactions and improve operating reliability;*

*develop added automating capabilities of the system handling receipt, verification and consolidation of banking reports;*

*introduce new automated transaction-handling capabilities to reduce material and labor costs;*

*install own software products at the Bank s branches; and*

*update software applications to comport with applicable law modifications and user requirements.*

# BRANCH NETWORK

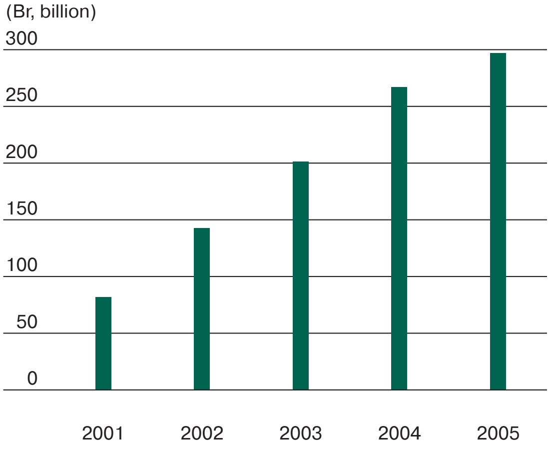
Dynamic development of the branch network is an important prerequisite for the Bank's overall business advancement. As at January 1, 2006, Belvnesheconombank comprised 26 branches including 5 regional branches. The Bank s branches accounted for 91% of the total number of corporate current accounts in the Bank s books and 63% of funds placed therein. The branches handled 72% of the loan portfolio, including 98% of the Br loan portfolio. They also accounted for approximately 69% of mobilized household funds and 90% of private customer loans outstanding that made up 10.6% of the total loan portfolio of the branch network.

In 2005, the branches increased their income by 13.6%, generating a profit of Br 3.6 billion, or as much as 48% of the Bank s consolidated profit. The highest profit volumes were reported by the Mogilev Regional Branch, Minsk Central Branch, Minsk Branch 2, and Mozyr Branch. Borisov and Bobruisk Branches also delivered solid and efficient performance.

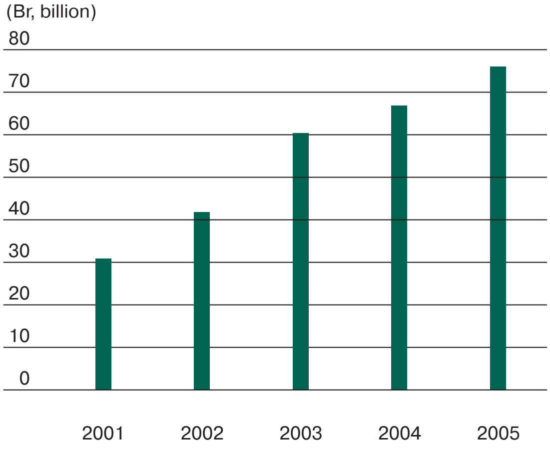
During the accounting year, corporate and household funds in the resource base of the branches recorded a 1.6-fold increase and reached Br 324.7 billion, while the branch network loan portfolio grew by Br 30.0 billion to Br 296.8 billion overall.

One of the key thrusts in the branch network activities in the year under review was expanding the spectrum of retail banking products and services and delivering customer service quality improvements. Retail asset- and liability-side operations were dynamically expanding in 2005, resulting in a steep rise in household lending volumes and deposits - household loans outstanding rose 2 times to Br 31.4 billion while deposits increased 1.5 times and reached Br 164.9 billion as at January 1, 2006.

**Branch Network Loans Outstanding 2001-2005**




**Branch Network Income, 2001-2005**



The Bank   s branches made major headway in their bankcard sales, scoring a growth of 147% over the year. The total number of debit cards in circulation rose 40% over 2005 and topped 42 thousand cards as at January 1, 2006. There was a 3.5-fold increase in credit card sales due, among other things, to a promotional offering of discounts to the Bank   s payroll cardholders. That was accompanied by a 5.7-fold upswing in the volume of revolving bankcard-based loans outstanding. As at January 1, 2006, the branches issued 4.2 thousand credit cards with a total balance outstanding of Br 4.1 billion. Card business development was the fastest-growing segment of the branch network activities in the year under review.

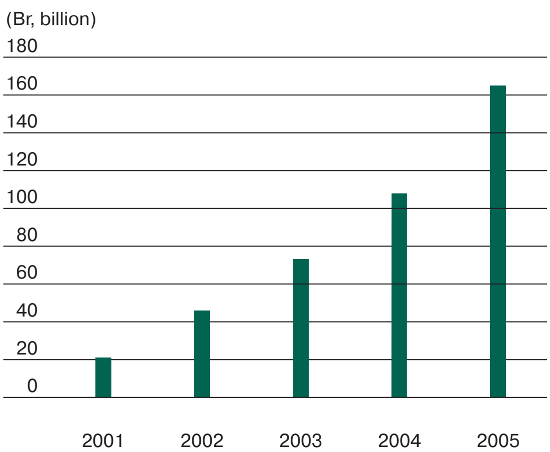
Gold bar trading was further scaled up in 2005. Owing to promotional campaigns, precious metal sales totaled Br 754 million over the year, i.e. 8 times as much as during the previous year.

With a view to improving customer satisfaction and in line with the Belvnesheconombank Plan of Measures for the Implementation of the Concept of Retail Banking Development in the Republic of Belarus in the period through 2010, Minsk Central Branch and Minsk Branch 3 were designated as test-beds for trying out new retail products and services.

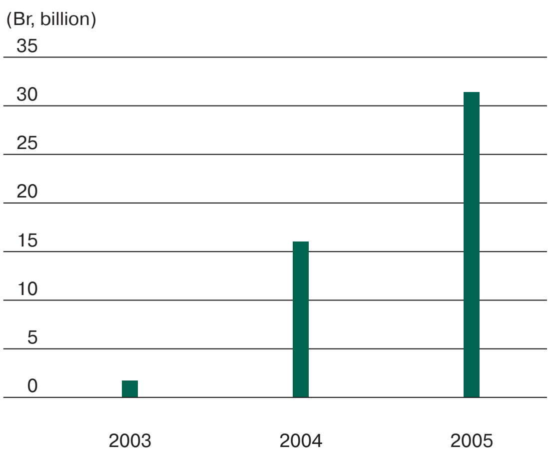
In 2005, the network of banking outlets run by the Bank   s branches was expanded by another 4 banking outlets and 1 cash-and-settlement center to bring the total to 34 structural units, including 9 cash-and-settlement centers and 25 banking outlets as at January 1, 2006.

In 2005, Belvnesheconombank held a contest among its branches for the best retail service provider. Mogilev Regional Branch and Pinsk Branch were judged best in dispensing retail services.

**Household Funds Mobilized by the Branch Network 2001-2005**




**Private Customer Loans Outstanding in the Branch Network, 2003-2005**



## FOREIGN REPRESENTATIVE OFFICES

Belvnesheconombank has representative offices in Russia (Moscow) and Poland (Warsaw).

As before, the representative offices were focusing their activities on promoting cooperation with banks and companies in Russia and Poland with a view to attaining the Bank s long-term goals and objectives in the markets of these countries. Ongoing attention was paid to strengthening business relations with prime local banks and seeking out new potential investors interested in financing projects in Belarus.

In 2005, the representative office in Poland assisted in putting in place a loan of USD 407 thousand from BRE Bank S.A., Poland, to finance an investment project of one of the Bank s customers, OAO Savushkin Produkt. Credit lines opened by Polish banks to Belvnesheconombank for settlement operations grew by USD 3.7 million to reach USD 5 million. Vneshtorgbank, Moscow, also increased its documentary credit line by USD 1 million. With the assistance of its representative offices, Belvnesheconombank confirmed USD 2.2 million worth of L/C post-financing transactions. Cooperation agreements were signed with Roseximbank, Russia, and Bank Gospodarstwa Krajowego B.P., Poland.

The Bank s representative offices play a pivotal role in developing trade and economic cooperation of Belarus with Russia and Poland, aiding to promote Belarusian exports and catalyze investment funds to Belarus.

The representative offices top-priority goals in 2006 will include further strengthening of cooperation with Russian and Polish banks with a view to expanding the already existing and opening new credit lines to Belvnesheconombank, attracting lending resources from local banks to fund investment and trade finance projects of the Bank s largest customers. The Bank s representative offices will continue to implement a set of measures to help the Bank s customers promote their products and services in the markets of their host countries.

# SUBSIDIARIES AND ASSOCIATED COMPANY

As at January 1, 2006, Belvnesheconombank s equity investments totaled Br 1,022.7 million and covered 17 legal entities, including Br 402.6 million invested in its subsidiaries and associated company. The Bank’s subsidiaries include Belvneshstrakh Insurance Company (wholly owned by the Bank), Interbranch Institute for Independent Expertise of Investment Projects Closed Joint Stock Company (52-percent equity stake), Belinterfinance Closed Joint Stock Company (51%), Vneshstroyinvest (51 %) and Vnesheconomstroy (51%) Commercial Open Joint Stock Ventures. The Bank’s associated company is Interecon-N Closed Joint Stock Company (10%).

The Bank’s subsidiaries pursued their lines of business as defined by their Articles of Association and business development strategies.

Belvneshstrakh was engaged in voluntary insurance of financial and property interests of its customers and also their foreign trade transactions. As at January 1, 2006, the insurance company s earnings totaled Br 4,782.7 million yielding a book profit of Br 177.8 million.

Interbranch Institute for Independent Expertise of Investment Projects developed and appraised 16 business plans. In order to generate a more consistent business performance and recruit new customers, the Institute embarked upon the implementation of a set of measures targeted on streamlining its pricing policy, expanding the spectrum of services, and cutting down business-plan development times by establishing a closer interaction with its customers. As at January 1, 2006, its total receipts amounted to Br 110.1 million, while its book profit was recorded at Br 8.2 million.

In the past year, Belinterfinance major lines of business included wholesale trading in agricultural machinery and produce, carrying out plowing and grain and sugar beet harvesting jobs for domestic agribusinesses, growing sugar beet and fodder barley using lands tenanted in Baranovichi District, Brest Region, as well as leasing transactions and other activities. As at January 1, 2006, Belinterfinance s revenues totaled Br 5,553.9 million and its book profit was Br 275 million.

Vneshstroyinvest runs a sporting and fitness facility under the trademark of Mir Fitnesa / World of Fitness. In 2005, the company earnings from service sales amounted to Br 4,119 million.

In 2005, Vnesheconomstroy temporarily mothballed its business, preparing for the construction of a multifunctional housing and office complex in Minsk. Pilot exploratory studies and preparatory design works were initiated to develop the requisite project documentation for the complex that would comprise residential premises with socio-cultural and service amenities, built-in and attached car parks and an office-and-business center.

Interecon-N, the Bank s associated company, was primarily engaged in running the Severny multipurpose market complex in Bobruisk, providing car-parking facilities, managing and renting out its own properties, carrying out property valuations and engaging in other commercial activities. In the past year, the company s earnings amounted to Br 779.5 million, yielding a book profit of Br 118.9 million.

Stringent standards set by Belvnesheconombank on professional expertise and personal qualities of employees helped to build a highly skilled team of associates competent in advanced banking business technologies. As at January 1, 2006, Belvnesheconombank’s staff comprised 2,320 employees, including 926 working in the head office, 1,394 deployed in the Bank’s branches, and 7 in the Bank s foreign representative offices in Moscow and Warsaw. Among those employed in the Bank s core business areas there were 10 PhD and 2 MBA degree holders. Executive officers and all staff members in the Bank s mission-critical operating divisions held pertinent university-level degrees. Many of the Bank s employees had 10 or more years of experience of working in the finance and banking industry. Employees under the age of 40 made up over 60% of the total workforce.

In 2005, personnel management was focused on raising expertise and enhancing staff capabilities for an adequate and professional accomplishment of the tasks facing the Bank. In this context, special attention was paid to reinforcing employee professional competencies, streamlining the Bank s organizational and staffing structures, improving staff recruitment and deployment, and fostering in-house corporate culture.

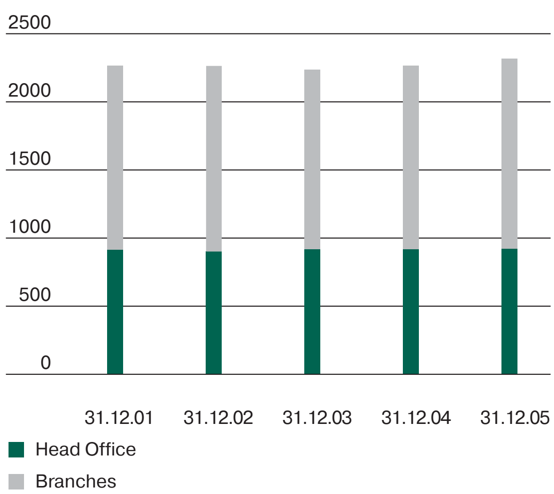
The Bank s training center ran 25 workshops attended by 625 employees. A number of trainee programs were carried out for employees nominated to managerial positions and for branch specialists. In 2005, 10 staff completed such programs. The Bank also ran preliminary professional aptitude testing of nominees to the positions of Branch Assistant Manager, Chief Accountant and Deputy Chief Accountant prior to being examined by the National Bank of the Republic of Belarus.

102 staff members attended off-site workshops and skills upgrading programs with 39 employees completing workshops and trainee programs abroad.

The Bank s permanent commission ran regular staff foreign language proficiency tests. In the past year, 112 employees were tested including 24 staff tested for the first time. 79 employees proved their compliance with the foreign language proficiency requirements. Over 40 staff members attended foreign language programs organized by the Bank s training center.

75 staff pursued regular and advanced university-degree courses, attended college-level programs or took up second university-degree studies. Employees with a good scholastic performance

**Staff Dynamics**



were granted an additional paid leave to take examinations and tests and prepare and submit end-of-studies projects. In 2005, 26 staff members completed their course of studies and earned relevant academic credentials.

Various divisions of the Bank provided on-the-job training to 89 undergraduate students from Belarusian State Economic University, Belarusian State University, Belarusian State Technical University, Belarusian State University of Informatics and Radioelectronics, Academy of Management under the Republic of Belarus Presidency, Pinsk Banking College, as well as from non-state educational establishments.

With a view to enhancing governance efficiency, achieving business-development targets projected for 2006, and attaining longer-term goals and objectives, it is envisaged to recast the Bank s staffing structure. Staffing levels and staff recruitment needs in each of the Bank s structural units will be made conditional on their business performance. Ongoing emphasis will be placed on raising theoretical grounding and professional competencies of the Bank s employees and their mastery of advanced specialized knowledge and skills.

In 2005, Belvnesheconombank set its sponsorship priorities on providing financial support to cultural and educational establishments, war and labor veterans organizations, Belarusian sporting associations, and voluntary and professional unions.

Belvnesheconombank made donations to Specialized Boarding School No.10 in Minsk to purchase New Year gifts, the Dokshitsy District Department of Education for the local orphanage, School No.14 in Molodechno to purchase computers, the Mogilev State School of Culture to install a water-heating thermostat, and the Education Authority of Sovetsky District in Minsk to carry out repair and renovation jobs at Kindergarten-Creche No. 341.

Among Belvnesheconombank s traditional beneficiaries were enterprises and workers in the agribusiness sector. The Bank donated the money to buy a TV-set for presentation to a best-performing agricultural worker at the Dazhynki-2005 National Harvesting Fair and Folk Festival. Funds were also donated to purchase construction materials for Orda agrifarm in Kletsk District, Minsk Region, and finance the construction of a communal sporting center in Shklov District, Mogilev Region.

Considerable financial donations were made to charity funds, and voluntary and professional unions such as the Eleos City Charity Fund in Minsk for medical treatment and recuperation of veterans, Belarusian and Minsk Associations of War Veterans on the occasion of the 60th anniversary of Victory in the Great Patriotic War, St. Cyril and Methodius Christian Educational Center, Belarusian Union of Women, and the Monastery of the Holy Assumption in Zhirovichi for renovation and construction works.

The Bank supported a number of sport-promoting projects. In particular, financial aid was provided to the Belarusian Tennis Association to stage the Davis Cup World Group Belarus vs. Spain match and also to purchase computer equipment, the Belarusian Basketball Federation for the 2005 European Championship preparations, and the Brest Cycling School for various sporting needs, to mention just a few.

The total amount of donations set aside by the Bank for community support and charitable objects topped Br 200 million in 2005.

# 2006 BUSINESS OBJECTIVES

Belvnesheconombank s 2006 strategic priorities are set on enhancing the Bank s financial soundness and competitive advantages, expanding volumes of lending to the real sector of the economy, primarily targeting export-oriented producers and SMEs, participating in the most important state-run programs, investment and socially significant projects, providing a still wider spectrum of high-quality banking products and services, and strengthening long-term and mutually rewarding business relations with the Bank s clients, shareholders and business partners.

In order to enhance the Bank s financial position and attain the targets set for the national banking industry by the 2006 Monetary Policy Guidelines of the Republic of Belarus, Concept of Belarus Banking Sector Development in 2001-2010, and the Bank s 2006 business plan, it is planned to:

- scale up the Bank s equity capital 1.8 times, improve its structure and secure ROE at no less than 11%;
- hold another share subscription in the second half of 2006;
- attain no less than a 1.3-fold growth in the Bank s resource base by pursuing an active marketing strategy and setting up conditions to increase the volume of funds placed with the Bank by its existing customers, attract up-and-coming and fast-growing SMEs and companies with foreign capital, and mobilize interbank resources and household funds;
- enlarge the share of high-yielding assets, increase sales volumes by improving customer satisfaction, cut down administrative costs and thereby attain no less than a 1.4-fold growth in profits;
- ensure high quality of the Bank s loan portfolio by an early detection of problem loans, systemic risk management and regular reviews of loan impairment causes;
- expand the loan portfolio by increased lending to key domestic industries, exporting companies, small and medium enterprises, individual entrepreneurs and households, as well as by reinforcing the Bank s presence in new lending market segments, and thereby ensure a 34.4% increase in corporate loans and a 2-fold growth in household loans;
- initiate work to obtain an international credit rating;
- exercise a systemic approach to credit risk management and reduce maximum credit risk exposures to a level corresponding to its equity capital;
- pursue a flexible interest rate policy to keep banking deposits attractive to investors from among the general public and further expand the volume of household deposits as the most stable source of finance for the Bank, and ensure a growth in household deposits by no less than a third that is to be attained, among other things, by running active public-awareness and promotional campaigns;
- expand factoring and documentary business (export and import L/Cs, guarantees) by increasing funds in corporate accounts and utilizing foreign credit lines;
- implement new high-yielding, competitive and cost-effective banking products and services, and broaden the range of products and services provided in cooperation with other companies (real estate agencies, travel and insurance companies, and trading organizations) and thereby expand retail operations;

- enhance and upgrade the Bank s technical facilities and implement advanced IT capabilities;
- develop and implement a new organizational chart in order to enhance the performance of each of the Bank s structural units and employees and the Bank as a whole, rationalize the system of governance, bring about improvements in staff execution discipline, eliminate duplication and overlap in the operation of the Bank s units, and cut down administrative and operating costs;
- place special emphasis on staff skills development and professional advancement, training and retraining to respond to the Bank s core business needs and embrace advanced customer management principles; and
- proceed with the reorganization of the branch network by transforming some of the least profitable branches into cash-and-settlement centers empowered to conduct lending transactions.

# FINANCIAL REPORT

## BALANCE SHEET as at January 1, 2006

Belvnesheconombank, 32, Myasnikova St., Minsk

(BYR million)

| Reference | Items | 2004 | 2005 |
|---|---|---|---|
| | ASSETS | | |
| 1101 | Cash | 20,433.7 | 23,011.5 |
| 1102 | Precious metals | 3,153.3 | 3,766.6 |
| 1103 | Due from the National Bank of the Republic of Belarus | 33,327.6 | 51,739.9 |
| 1104 | Government securities. securities of the National Bank of the Republic of Belarus | 7,526.2 | 70,908.0 |
| 1105 | Other trading securities (available for sale) | 2,406.2 | 9,141.9 |
| 1106 | Due from other banks and loans and advances to other banks | 128,731.2 | 144,456.9 |
| 1107 | Loans and advances to clients | 355,385.1 | 404,592.2 |
| 1108 | Investment securities | 228.3 | 1,022.6 |
| 1109 | Fixed and intangible assets | 48,042.1 | 49,522.6 |
| 11010 | Other assets | 23,031.8 | 34,846.5 |
| **110** | **TOTAL ASSETS** | **622,265.5** | **793,008.7** |
| | LIABILITIES | | |
| 1201 | Precious metals | 3,055.9 | 3,413.6 |
| 1202 | Due to the National Bank of the Republic of Belarus | 540.6 | 4,097.5 |
| 1203 | Loans from the Government | 0.0 | 0.0 |
| 1204 | Due to other banks | 86,588.1 | 66,283.1 |
| 1205 | Due to clients | 419,529.4 | 594,773.3 |
| 1206 | Securities issued by the Bank | 950.0 | 1,004.5 |
| 1207 | Other liabilities | 32,209.7 | 41,713.1 |
| 120 | TOTAL LIABILITIES | 542,873.7 | 711,285.1 |
| | CAPITAL | | |
| 1211 | Authorized capital | 24,131.2 | 24,124.0 |
| 1212 | Issuance difference | 0.0 | 0.0 |
| 1213 | Reserve fund | 10,288.5 | 11,053.1 |
| 1214 | Retained profit | 15,263.6 | 16,834.0 |
| 1215 | Balance sheet items revaluation fund | 29,708.5 | 29,712.5 |
| 121 | Total capital | 79,391.8 | 81,723.6 |
| **12** | **TOTAL LIABILITIES AND CAPITAL** | **622,265.5** | **793,008.7** |

| Reference | Items | 2004 | 2005 |
|---|---|---|---|
| | OFF-BALANCE SHEET ITEMS | | |
| 1301 | Performance guarantees issued | 71,876.5 | 65,161.6 |
| 1302 | Performance guarantees received | 93,124.9 | 140,929.5 |
| 1303 | Commitments under individual financing arrangements issued | 85,488.2 | 91,473.2 |
| 1304 | Commitments under individual financing arrangements received | 0.0 | 0.0 |
| 1305 | Off-balance sheet debt | 71,281.5 | 48,295.2 |
| 1306 | Securities due for delivery | 3,624.2 | 1,000.0 |
| 1307 | Securities due to be received | 6,647.2 | 0.0 |
| 1308 | Commitments arising from forex and precious metal sale | 0.0 | 9,338.9 |
| 1309 | Commitments arising from forex and precious metal purchase | 0.0 | 9,350.7 |
| 13010 | Options purchased | 0.0 | 0.0 |
| 13011 | Options sold | 0.0 | 0.0 |
| 13012 | Assets pledged by the Bank | 0.0 | 0.0 |
| 13013 | Assets pledged to the Bank | 870,223.8 | 865,424.0 |
| 13014 | Commitments arising from loans advanced | 27,535.3 | 0.0 |
| 13015 | Client securities | 0.0 | 0.0 |
| 13016 | Securities portfolio | 3,428.7 | 9,020.8 |
| 13017 | Other funds, items of value and instruments | 441,848.2 | 259,171.1 |
| **13** | **TOTAL OFF-BALANCE SHEET ITEMS** | **1,675,078.5** | **1,499,165.0** |

Georgy Egorov
Chairman of the Board

Zinaida Kushnerova
Chief Accountant

Audited financial statements as translated by the Bank.
Financial statements on p.p. 54 - 60 are presented in accordance with the law of the Republic of Belarus.

## PROFIT AND LOSS ACCOUNT as at January 1, 2006

Belvnesheconombank, 32, Myasnikova St., Minsk

BYR million

| Reference | Items | 2004 | 2005 |
|---|---|---|---|
| 2011 | Interest income | 52,006.4 | 60,215.4 |
| 2012 | Interest expense | 30,159.6 | 33,335.7 |
| 201 | Net interest income | 21,846.8 | 26,879.7 |
| 2021 | Fee and commission income | 30,565.8 | 33,991.9 |
| 2022 | Fee and commission expense | 1,782.1 | 2,299.1 |
| 202 | Net fee and commission income | 28,783.7 | 31,692.8 |
| 2031 | Net foreign exchange gain | 7,118.5 | 8,868.6 |
| 2032 | Net gain from trading securities (available for sale) | -1,049.2 | 509.3 |
| 2033 | Net gain from investment securities | 0.0 | 0.0 |
| 2034 | Dividend income | 23.9 | 14.3 |
| 2035 | Other operating income | 9,068.7 | 10,584.9 |
| 203 | TOTAL INCOME | 15,161.9 | 19,977.1 |
| 2041 | Net allowance for asset loss | -2,328.3 | 1,919.9 |
| 20 | Total income less net allowance for asset loss | 68,120.7 | 76,629.7 |
| 2101 | Total administrative expense | 40,568.9 | 44,743.6 |
| 2102 | Depreciation | 2,859.2 | 3,579.9 |
| 2103 | Other operating expense | 9,210.6 | 10,008.1 |
| 21 | TOTAL EXPENSES | 52,638.7 | 58,331.6 |
| 22 | Income tax | 2,095.7 | 10,651.0 |
| | PROFIT (LOSS) OF THE REPORTING YEAR | 13,386.3 | 7,647.1 |
| | Basic earnings per ordinary share (BYR) | 78 | 32 |
| | Diluted earnings per ordinary share | - | - |

Georgy Egorov
Chairman of the Board

Zinaida Kushnerova
Chief Accountant

Audited financial statements as translated by the Bank.
Financial statements on p.p. 54 - 60 are presented in accordance with the law of the Republic of Belarus.

# STATEMENT OF CHANGES IN CAPITAL, 2005

Belvnesheconombank, 32, Myasnikova St., Minsk

(BYR million)

| Indicators | Reference | Capital category | | | | | |
|---|---|---|---|---|---|---|---|
| | | Authorized capital | Issuance difference | Reserve fund | Retained profit | Balance sheet items revaluation fund | Total capital (total of sections 3-7) |
| Opening balance | 3011 | 24,131.2 | | 10,288.5 | 15,263.6 | 29,708.5 | 79,391.8 |
| Change in capital for the year: profit for the year (loss shown with minus sign) | 30121 | * | * | * | 7,647.1 | * | 7,647.1 |
| Profit appropriated for fund replenishment | 30122 | | | 764.7 | -764.7 | * | - |
| Dividend payment | 30123 | * | * | * | -5,311.1 | * | -5,311.1 |
| Founders' (members') contributions to authorized capital | 30124 | | * | * | * | * | |
| Revaluation of balance sheet items | 30125 | * | * | * | * | * | - |
| Redistribution between capital items | 30126 | | | | | | * |
| Other changes | 30127 | -7.2* | | -0.1*** | -0.9*** | 4.0** | -4.2 |
| Total changes in the capital for the year | 3012 | -7.2 | | 764.6 | 1,570.4 | 4.0 | 2,331.8 |
| Closing balance | 3013 | 24,124.0 | | 11,053.1 | 16,834.0 | 29,712.5 | 81,723.6 |

* purchased treasury shares
** correction of accounting entry of tangible assets restatement for 2004
*** round-off

Georgy Egorov
Chairman of the Board

Zinaida Kushnerova
Chief Accountant

Audited financial statements as translated by the Bank.
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## STATEMENT OF CASH FLOWS AS AT JANUARY 1, 2006

Belvnesheconombank, 32, Myasnikova St., Minsk

(BYR million)

| Reference | Items | 2004 | 2005 |
|---|---|---|---|
| | **Cash flows from operating activity:** | | |
| 7010 | interest income | 51,906.2 | 60,260.6 |
| 7011 | interest expense | -29,087.1 | -32,066.9 |
| 7012 | fee and commission income | 30,509.9 | 33,992.0 |
| 7013 | fee and commission expense | -1,780.2 | -2,296.8 |
| 7014 | other income from forex operations | 7,118.0 | 8,777.5 |
| 7015 | other income from operations with trading securities | -1,049.6 | 509.3 |
| 7016 | dividend income | 23.9 | 14.3 |
| 7017 | other operating income | 7,216.5 | 8,220.7 |
| 7018 | other operating expense | -47,901.0 | -51,934.2 |
| 7019 | income tax paid | -2,763.0 | -10,677.0 |
| 701 | Cash profit (loss) prior to changes in operating assets and liabilities | 14,193.6 | 14,799.5 |
| | **Cash flows from changes in operating assets:** | | |
| 7021 | net decrease (increase) in precious metals | -454.1 | -970.9 |
| 7022 | net decrease (increase) in cash with National Bank | -5,012.9 | -18,535.8 |
| 7023 | net decrease (increase) in cash in government and National Bank securities | 28,946.2 | -63,381.8 |
| 7024 | net decrease (increase) in cash in other trading securities | 4,887.9 | -6,806.1 |
| 7025 | net decrease (increase) in cash with other banks (including loans to other banks) | -3,779.3 | 4,856.2 |
| 7026 | net decrease (increase) in customer loans | -82,288.0 | -56,462.5 |

| | | | |
|---|---|---|---|
| 7027 | net decrease (increase) in cash in other operating assets | -26.1 | -10,433.2 |
| 702 | Cash flows from changes in operating assets | -57,726.3 | -151,734.1 |
| | **Cash flows from changes in operating liabilities:** | | |
| 7031 | net increase (decrease) in precious metals | 394.8 | 715.3 |
| 7032 | net increase (decrease) in cash from National Bank | -2,411.7 | 3,593.9 |
| 7033 | net increase (decrease) in loans from Belarus government | 0.0 | 0.0 |
| 7034 | net increase (decrease) in loans from other banks | -4,702.3 | -19,152.8 |
| 7035 | net increase (decrease) in customer accounts | 55,043.3 | 188,619.1 |
| 7036 | net increase (decrease) in cash from issuance of own securities | -3,405.0 | 54.8 |
| 7037 | net increase (decrease) in cash in other operating liabilities | 9,696.4 | 7,250.9 |
| 703 | Cash flows from changes in operating liabilities | 54,615.5 | 181,081.2 |
| 70 | Net cash flow received from (used in) operating activities | 11,082.7 | 44,146.6 |
| | **Cash flows from investment activities:** | | |
| 7111 | Purchase of fixed, intangible and other long-term assets | -12,002.9 | -17,049.0 |
| 7112 | Proceeds from sale of fixed, intangible and other long-term assets | 476.7 | 8,943.8 |
| 7113 | Purchase of investment securities | -17.6 | -325.5 |
| 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 | -11,543.8 | -8,430.7 |
| | **Cash flows from financing activities:** | | |
| 7211 | Share issuance | 7,000.0 | 0.0 |
| 7212 | Purchase of treasury shares | -5.0 | -7.2 |
| 7213 | Sale of previously purchased treasury shares | 0.0 | 0.0 |
| 7214 | Dividend distribution | -3,695.3 | -5,290.5 |
| 72 | Net cash flow received from (used in) financing activities | 3,299.7 | -5,297.7 |
| 73 | Effect of exchange rate on cash and cash equivalents | 1,018.4 | -1,677.0 |
| 74 | Net increase (decrease) in cash and cash equivalents | 3,857.0 | 28,741.2 |
| 740 | Cash and cash equivalents at the start of the period | 43,929.4 | |
| 741 | Cash and cash equivalents at the close of the period | | 72,670.6 |

Georgy Egorov
Chairman of the Board

Zinaida Kushnerova
Chief Accountant

Audited financial statements as translated by the Bank.
Financial statements on p.p. 54 - 60 are presented in accordance with the law of the Republic of Belarus.

OPEN JOINT STOCK COMPANY

BELVNESHECONOMBANK

INDEPENDENT AUDITORS REPORT

FINANCIAL STATEMENTS

For the Year ended 31 December 2005

## OPEN JOINT STOCK COMPANY BELVNESHECONOMBANK

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

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

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2005 were authorised for issue on 22 May 2006 by the Board of the Bank.

Georgy A. Egorov
Chairman of the Board

Zinaida S. Kushnerova
Chief Accountant

Deloitte.

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Deloitte & Touche
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Belarus

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Fax: +375 (0)17 237 3193
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**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 2005, the related profit and loss account and statements of cash flows and changes in equity ("the financial statements") for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 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. The effect of consolidation on the Bank's financial statements could not be assessed reliably.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

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

Deloitte & Touche

22 May 2006

## OPEN JOINT STOCK COMPANY BELVNESHECONOMBANK

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005
(in millions of Belarusian Roubles )

| | Notes | Year ended 31 December 2005 | Year ended 31 December 2004 |
|---|---|---|---|
| Interest income | 4, 24 | 62,681 | 58,883 |
| Interest expense | 4, 24 | (34,610) | (34,860) |
| NET INTEREST INCOME BEFORE RECOVERY OF PROVISION/ (PROVISION) FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 28,071 | 24,023 |
| Recovery of provision/(provision) for impairment losses on interest bearing assets | 5, 24 | 897 | (7,409) |
| NET INTEREST INCOME | | 28,968 | 16,614 |
| Net gain on securities at fair value through profit and loss account | | 5,497 | 7,505 |
| Net gain on foreign exchange operations | | 9,216 | 8,262 |
| Fee and commission income | 6, 24 | 33,963 | 34,748 |
| Fee and commission expense | 6, 24 | (2,386) | (2,056) |
| Other income | 7, 24 | 8,630 | 4,943 |
| NET NON-INTEREST INCOME | | 54,920 | 53,402 |
| OPERATING INCOME | | 83,888 | 70,016 |
| OPERATING EXPENSES | 8, 24 | (64,889) | (63,757) |
| OPERATING PROFIT | | 18,999 | 6,259 |
| Other provisions | 5 | (1,872) | (1,450) |
| PROFIT BEFORE LOSS ON NET MONETARY POSITION AND INCOME TAX | | 17,127 | 4,809 |
| Loss on net monetary position due to inflation effect | | (3,184) | (1,908) |
| PROFIT BEFORE INCOME TAX | | 13,943 | 2,901 |
| Income tax (expense)/recovery of income tax expense including recovery of deferred taxes | 9 | (10,967) | 5,182 |
| NET PROFIT | | 2,976 | 8,083 |

Georgy A. Egorov
Chairman

Zinaida S. Kushnerova
Chief Accountant

The notes on pages 69-106 form an integral part of these financial statements. The Independent Auditors’ Report is on page 63.

## OPEN JOINT STOCK COMPANY BELVNESHECONOMBANK

BALANCE SHEET
AS OF 31 DECEMBER 2005
(in millions of Belarusian Roubles )

| | Notes | 31 December 2005 | 31 December 2004 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 10, 24 | 87,296 | 61,400 |
| Precious metals | | 353 | 105 |
| Loans and advances to banks, less allowance for impairment losses | 11, 24 | 130,920 | 126,046 |
| Securities at fair value through profit and loss | 12,24 | 81,145 | 15,088 |
| Loans to customers, less allowance for impairment losses | 13, 24 | 401,041 | 376,833 |
| Investments, less allowance for impairment losses | 14, 24 | 4,160 | 4,298 |
| Tangible and intangible assets, less accumulated depreciation and amortization | 15 | 72,233 | 75,049 |
| Other assets, less allowance for impairment losses | 16 | 7,512 | 10,096 |
| TOTAL ASSETS | | 784,660 | 668,915 |
| **LIABILITIES AND EQUITY** | | | |
| LIABILITIES: | | | |
| Due to the National Bank of the Republic of Belarus | 17, 24 | 4,110 | 584 |
| Loans and advances from banks | 18, 24 | 70,041 | 96,878 |
| Government loans | | 20 | 22 |
| Customer accounts | 19, 24 | 604,427 | 459,700 |
| Debt securities issued | | 5 | 915 |
| Deferred income tax liabilities | 9 | 4,493 | 4,959 |
| Other liabilities | 20, 24 | 6,780 | 8,432 |
| Total liabilities | | 689,876 | 571,490 |
| EQUITY: | | | |
| Share capital | 21 | 226,947 | 226,947 |
| Treasury shares | | (45) | (37) |
| Accumulated deficit | | (132,118) | (129,485) |
| Total equity | | 94,784 | 97,425 |
| TOTAL LIABILITIES AND EQUITY | | 784,660 | 668,915 |

Georgy A. Egorov
Chairman

Zinaida S. Kushnerova
Chief Accountant

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## OPEN JOINT STOCK COMPANY BELVNESHECONOMBANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2005
(in millions of Belarusian Roubles)

| | Notes | Share capital | Treasury shares | Accumulated deficit | Total |
|---|---|---|---|---|---|
| **31 December 2003** | | 219,228 | (32) | (133,140) | 86,056 |
| Share capital increase | | 7,719 | - | - | 7,719 |
| Purchase of treasury shares | 21 | - | (5) | - | (5) |
| Dividends for 2003 declared and paid | | - | - | (4,428) | (4,428) |
| Net profit | | - | - | 8,083 | 8,083 |
| **31 December 2004** | | 226,947 | (37) | (129,485) | 97,425 |
| Purchase of treasury shares | 21 | - | (8) | - | (8) |
| Dividends for 2004 declared and paid | | - | - | (5,609) | (5,609) |
| Net profit | | - | - | 2,976 | 2,976 |
| **31 December 2005** | | 226,947 | (45) | (132,118) | 94,784 |

Georgy A. Egorov
Chairman

Zinaida S. Kushnerova
Chief Accountant

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## OPEN JOINT STOCK COMPANY BELVNESHECONOMBANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005
(in millions of Belarusian Roubles )

| | Notes | Year ended 31 December 2005 | Year ended 31 December 2004 (restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before loss on net monetary position and income tax | | 17,127 | 4,809 |
| Adjustments for: | | | |
| (Recovery of provision)/provision for impairment losses on interest bearing assets | | (897) | 7,409 |
| Other provisions | | 1,872 | 1,450 |
| Depreciation and amortization | | 6,957 | 6,795 |
| Loss on disposal of tangible and intangible assets | | 100 | 73 |
| Change in interest accruals, net | | (446) | (491) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 24,713 | 20,045 |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Restricted balances with the National Bank of the Republic of Belarus | | (16,014) | (4,366) |
| Precious metals in vault | | (248) | (105) |
| Loans and advances to banks | | 46,511 | (4,935) |
| Securities at fair value through profit and loss account | | (4,732) | 4,193 |
| Loans to customers | | (21,802) | (52,248) |
| Securities purchased under agreements to resell | | - | 1,347 |
| Investments | | (118) | 27,683 |
| Other assets | | 3,219 | (1,601) |
| Increase/(decrease) in operating liabilities: | | | |
| Deposits from banks | | (26,998) | (8,184) |
| Customer accounts | | 144,386 | 12,799 |
| Other liabilities | | 1,696 | (2,144) |
| Cash inflow/(outflow) from operating activities before taxation | | 150,613 | (7,516) |
| Income taxes paid | | (11,066) | (613) |
| Net cash inflow/(outflow) from operating activities | | 139,547 | (8,129) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of tangible and intangible assets | | (5,352) | (5,690) |
| Investments in subsidiaries | | (301) | (23) |
| Net cash outflow from investing activities | | (5,653) | (5,713) |

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2005
(in millions of Belarusian Roubles)

| | Notes | Year ended 31 December 2005 | Year ended 31 December 2004 (restated) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Issue of share capital | | - | 7,719 |
| Purchase of treasury shares | | (8) | (5) |
| Dividends paid | | (5,609) | (4,428) |
| Repayment of debt securities, net | | (907) | (4,470) |
| Net cash outflow from financing activities | | (6,524) | (1,184) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | 127,370 | (15,026) |
| INFLATION EFFECT ON MONETARY ASSETS AND LIABILITIES (EXCEPT VALUATION ALLOWANCES) | | (5,431) | (6,491) |
| CASH AND CASH EQUIVALENTS, beginning of year | 10 | 56,486 | 78,003 |
| CASH AND CASH EQUIVALENTS, end of year | 10 | 178,425 | 56,486 |

Interest paid and received by the Bank during the year ended 31 December 2005 amounted to BYR 34,277 million and BYR 61,960 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2004 amounted to BYR 34,808 million and BYR 57,928 million, respectively.

Georgy A. Egorov
Chairman

Zinaida S. Kushnerova
Chief Accountant

The notes on pages 69-106 form an integral part of these financial statements. The Independent Auditors' Report is on page 63.

## 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).

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

| Shareholder | 2005 | 2004 |
|---|---|---|
| National Bank of the Republic of Belarus | 33.52% | 33.52% |
| JSC Nazionalny Kosmichesky Bank (Russia) | 32.46% | 32.46% |
| Ministry of Economy of the Republic of Belarus | 6.26% | 6.21% |
| RUE Belarusian Metal Plant | 5.27% | 5.27% |
| ZAO Pinskdrev | 6.28% | 6.28% |
| Other | 16.21% | 16.26% |
| Total | 100.00% | 100.00% |

## 2. BASIS OF PRESENTATION

### Accounting basis

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

These financial statements are presented in millions of Belarusian Roubles ("BYR million"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"), except for measurement of certain financial instruments at fair value.

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

Shareholders' equity as of 31 December 2005 and 2004 and the profit for the years then ended are reconciled between the statutory accounting legislation and IFRS as follows:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Total Equity** | **Net Profit** | **Total Equity** | **Net Profit** |
| **Statutory accounting legislation** | 81,723 | 7,647 | 78,460 | 14,470 |
| Deferred income tax liabilities | (4,493) | 99 | (4,959) | 5,795 |
| Provisions, net | (15,777) | 1,611 | (18,779) | (9,226) |
| Fixed assets, net | 15,653 | - | 16,905 | - |
| IAS 29 effect, net | 7,824 | (6,235) | 14,998 | (5,011) |
| Fair value adjustments, net | 3,055 | (2,164) | 5,654 | 712 |
| Accrued interest adjustments, net | 9,245 | 3,004 | 6,740 | 1,931 |
| Other, net | (2,446) | (986) | (1,594) | (588) |
| **International Financial Reporting Standards** | 94,784 | 2,976 | 97,425 | 8,083 |

**Use of estimates**

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

**Functional currency**

The functional currency of these financial statements is the currency of the Republic of Belarus - Belarusian Rouble.

## 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 voting power 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. Investments in non-consolidated subsidiaries are accounted for at cost restated for inflation less allowance for impairment. The impairment allowance was calculated based on the financial statements of these companies prepared in accordance with Belarusian accounting legislation since these companies do not prepare financial statements in accordance with IFRS and management believes that adjusting these financial statements to comply with IFRS would not be practical.

**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 restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian Rouble. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

IAS 29 indicates that reporting operating results and financial position in Belarusian Roubles without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The restatement was made using the Consumer Price Index ("CPI"), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The CPI for the five year period ended 31 December 2005 are as follows:

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

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

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 expenses have accrued evenly over the year.

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

**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 fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

**Cash and cash equivalents**

Cash and cash equivalents for the purpose of statement of cash flows include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank with original maturity within 90 days, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD") with original maturity within 90 days, except for guarantee deposits and other restricted balances, as well as government debt securities at fair value through profit and loss, which may be converted to cash within a short period of time. The minimum reserve deposit required by the National Bank 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 2005 and 2004 using the BYR/USD exchange rate effective at the date. Changes in the bid prices are recorded 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. Amortized cost of loans and advances that do not have fixed maturities is calculated using the expected repayment dates per management estimates. Loans and advances to banks are carried net of any allowance for impairment losses.

**Financial instruments at fair value through profit and loss**

Financial instruments at fair value through profit or loss represent assets that are acquired principally for the purpose of selling them in the near term and for which there is evidence of a recent actual pattern of short-term profit-taking; or are derivatives (except for derivatives that are designated for hedging and are effective hedging instruments); or assets initially recognized as financial instruments at fair value through profit and loss. These financial instruments are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for these financial instruments. When reliable market prices are not available or if liquidating the Bank’s position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management’s estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. The fair value adjustment on such financial instruments is recognized in the profit or loss.

**Repurchase and reverse repurchase agreements**

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

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

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

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

**Loans and advances to customers**

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 above. 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 rate method. Loans to customers are carried net of any allowance for impairment losses.

**Write-off of loans and advances**

Loans and advances are written off against allowance for loan losses in case of uncollectibility, 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 sell all available collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Supervisory Council.

**Allowance for losses**

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

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

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

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

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

**Investments available for sale**

Investments available for sale represent equity investments that are intended to be held for an indefinite period of time. Such investments 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 recognised directly in equity. The Bank uses quoted market prices to determine the fair value for the Bank's investments available for sale. If such quotes do not exist, management estimation is used. Dividends received are included in other income in the profit and loss account. Unquoted equity investments whose fair value can not be reliably measured are carried at cost less provision for impairment losses.

**Tangible and intangible assets**

Tangible and intangible assets are carried at historical cost restated for inflation less accumulated depreciation and any accumulated impairment loss (principles of restatement for inflation were stated ealier in this note in section "Accounting for the effects of hyperinflation"). Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation/amortization of tangible 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% |
| Furniture and other fixed assets | 8 - 25% |
| Intangible assets | 10 - 50% |

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

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

Construction in progress comprises costs directly related to construction of tangible assets including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation.

**Finance leases**

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

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

**Bank as lessor**

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

**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 and is computed in accordance with the legislation of the Republic of Belarus. 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. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 fair value. 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 and certificates of deposit issued by the Bank. They are accounted for according to the same principles used for customer and bank deposits.

**Financial guarantee contracts issued and letters of credit**

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

**Other provisions**

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

**Share capital**

Share capital is recognized at nominal value restated for the effect of inflation. The negative difference on share issue represents the difference between the nominal value of shares and the fair value of contributions received. Treasury shares are recorded at cost restated for the effect of inflation.

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

**Retirement and other benefit obligations**

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

**Recognition of income and expense**

Interest income and expense are recognized on an accrual basis using effective interest rate method. Interest income also includes income earned on investments in securities. 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 recognised as an adjustment to a loan's effective yield. Commission income/expenses are recognized on an accrual basis.

**Fee and commission income**

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

**Foreign currency translation**

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

**Rates of exchange**

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

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| BYR/USD | 2,152.00 | 2,170.00 |
| BYR/EUR | 2,546.35 | 2,955.65 |
| BYR/RUB | 74.86 | 77.91 |

**Offset of financial assets and liabilities**

Financial assets and liabilities are offset and reported net in 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.

**Effect of adoption of new and revised International Financial Reporting Standards**

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

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

In accordance with the revised IAS 24 "Related party disclosures" certain additional disclosures are included as of and for the year ended 31 December 2004.

In accordance with the revised IAS 39 "Financial Instruments: Recognition and Measurement" securities held for trading of BYR 10,895 million and investment securities available-for-sale of BYR 4,193 million were reclassified to financial assets at fair value through profit or loss as of 31 December 2004, and net gain on securities held for trading of BYR 7,173 million and investment securities available for sale of BYR 332 million were reclassified to net gain on financial assets at fair value through profit or loss for the year ended 31 December 2004.

As of 1 January 2005, the International Accounting Standards Board issued IFRS 4 "Insurance Contracts" and amended IAS 39 "Financial Instruments: Recognition and Measurement" such that financial guarantee contracts are included in insurance contracts as defined in IFRS 4. Such contracts are initially recognized at fair value and subsequently measured at the higher of the amount recognized as a provision and the amount initially recognized less cumulative amortization over the period of the contract. The impact of this amendment is not considered to be significant and therefore no restatements have been made.

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

The Bank performed an assessment of the effect on its financial position and results of operations reported under IFRS from new and revised standards which would become effective for accounting periods beginning on or after 1 January 2006.

As of 1 January 2006 the scope of IAS 39 "Financial Instruments: Recognition and Measurement" was amended to include financial guarantee contracts issued and remove them from IFRS 4 "Insurance Contracts". Under IAS 39 financial guarantee contracts issued are accounted and disclosed in a similar way as under IFRS 4, therefore the Bank believes that the effect of this change will not be significant.

As of 1 January 2006 the option previously contained in IAS 39 to designate any financial asset or financial liability to be measured at fair value through profit or loss has been restricted. The Bank reviewed its financial assets and financial liabilities at fair value through profit or loss as of 31 December 2005 and believes that the effect of the change will not be significant.

In accordance with IFRS 7 "Financial Instruments: Disclosures" effective from 1 January 2007 the Bank should present additional information regarding financial instruments. The Bank assessed the influence of requirements under IFRS 7 and developed a plan for systems to provide appropriate level of disclosures.

**Reclassifications**

Certain reclassifications have been made to the comparative information as of 31 December 2004 and for the year then ended to conform to the presentation as of 31 December 2005 and for the year then ended as the current year presentation provides better view of the financial statements, including reclassification of securities sold under agreements to repurchase of BYR 3,279 million to loans and advances from banks, and net gain on securities held for trading of BYR 415 million to interest income.

## 4. NET INTEREST INCOME

Net interest income comprises:

| | Year ended 31 December 2005 | Year ended 31 December 2004 |
|---|---|---|
| **Interest income** | | |
| Interest on loans to customers | 58,203 | 53,550 |
| Interest on loans and advances to banks | 3,976 | 4,304 |
| Interest on debt securities | 465 | 1,000 |
| Other interest income | 37 | 29 |
| **Total interest income** | **62,681** | **58,883** |
| **Interest expense** | | |
| Interest on customer accounts | 29,194 | 26,323 |
| Interest on loans and advances from banks | 4,343 | 8,488 |
| Other interest expenses | 1,073 | 49 |
| **Total interest expense** | **34,610** | **34,860** |
| **Interest income less interest expense** | **28,071** | **24,023** |

## 5. ALLOWANCE FOR IMPAIRMENT, OTHER PROVISIONS

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

| | Loans and advances to banks | Loans to customers | Total |
|---|---|---|---|
| 31 December 2003 | 913 | 15,210 | 16,123 |
| (Recovery)/Provision | (228) | 7,637 | 7,409 |
| Write-off of assets | - | (3,196) | (3,196) |
| Gain on net monetary position | (99) | (2,204) | (2,303) |
| 31 December 2004 | 586 | 17,447 | 18,033 |
| Recovery | (559) | (338) | (897) |
| Write-off of assets | - | (6) | (6) |
| Gain on net monetary position | (23) | (1,360) | (1,383) |
| 31 December 2005 | 4 | 15,743 | 15,747 |

The movements in allowances for impairment losses on other assets and investments available for sale were as follows:

| | Investments in non-consolidated subsidiaries | Other assets | Total |
|---|---|---|---|
| 31 December 2003 | 2,224 | 744 | 2,968 |
| (Recovery)/Provision | (1,251) | 132 | (1,119) |
| Gain on net monetary position | (199) | (103) | (302) |
| 31 December 2004 | 774 | 773 | 1,547 |
| Provision/(Recovery) | 638 | (744) | (106) |
| Gain on net monetary position | (81) | (29) | (110) |
| 31 December 2005 | 1,331 | - | 1,331 |

Allowances for impairment losses on other assets are deducted from the related assets.

The movements in allowances for guarantees and other off-balance sheet commitments were as follows:

| | Guarantees and other commitments |
|---|---|
| 31 December 2003 | 2,077 |
| Provision | 2,569 |
| Gain on net monetary position | (429) |
| 31 December 2004 | 4,217 |
| Recovery | (1,712) |
| Gain on net monetary position | (387) |
| 31 December 2005 | 2,118 |

Allowances for guarantees and other commitments are recorded in other liabilities.

Also, as of 31 December 2005 included into profit and loss account in other provisions is BYR 3,690 million, made for the Bank’s commitment to Instituto Per I Servizi Assicurativi Del Commercio Estero, Italy (SACE) with the final maturity in 2010 (see Note 18).

## 6. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | Year ended 31 December 2005 | Year ended 31 December 2004 |
|---|---|---|
| **Fee and commission income:** | | |
| Service fees on operations with customers | 26,066 | 24,719 |
| Commission on foreign exchange and precious metals transactions | 6,845 | 8,918 |
| Commission on transactions with banks | 1,030 | 1,044 |
| Commission on transactions with securities | 21 | 64 |
| Other fee and commission income | 1 | 3 |
| **Total fee and commission income** | **33,963** | **34,748** |
| **Fee and commission expense:** | | |
| Commission on transactions with banks | 1,943 | 890 |
| Commission on foreign exchange and precious metals transactions | 382 | 945 |
| Commission on transactions with securities | 31 | 39 |
| Other fee and commission expense | 30 | 182 |
| **Total fee and commission expense** | **2,386** | **2,056** |

## 7. OTHER INCOME

Other income comprises:

| | Year ended 31 December 2005 | Year ended 31 December 2004 |
|---|---|---|
| Income from recovery of debts previously written off | 5,209 | 3,953 |
| Income from sale of other assets | 1,715 | - |
| Fines and penalties received | 378 | 227 |
| Rent income | 255 | 382 |
| Other | 1,073 | 381 |
| **Total other income** | **8,630** | **4,943** |

**8. OPERATING EXPENSES**

Operating expenses comprise:

| | Year ended 31 December 2005 | Year ended 31 December 2004 |
|---|---|---|
| Staff costs | 22,237 | 23,522 |
| Social security contributions | 7,543 | 7,505 |
| Depreciation and amortization | 6,957 | 6,795 |
| Taxes, other than income tax | 5,927 | 5,143 |
| Rent, utilities and repairs | 3,768 | 4,883 |
| Security expenses | 2,227 | 2,016 |
| Software use fees | 2,088 | 2,619 |
| Compulsory contributions to Deposit Insurance Fund | 1,715 | 2,106 |
| Communication expenses | 1,276 | 1,248 |
| Professional service fees | 1,133 | 1,182 |
| Transportation expenses | 1,069 | 1,243 |
| Loss on disposal of tangible, intangible and other assets | 917 | 162 |
| Office expenses | 327 | 1,050 |
| Other expenses | 7,705 | 4,283 |
| **Total operating expenses** | **64,889** | **63,757** |

**9. INCOME TAXES**

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

In 2005 and 2004 the Bank was 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.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2005 and 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

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

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

The tax effect of temporary differences as of 31 December 2005 and 2004 was as follows:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Tax deductible temporary differences: | | |
| Allowance for impairment losses on loans to banks and customers | 9,969 | 13,789 |
| Other provisions | 5,808 | 4,217 |
| Other assets | 2,904 | 2,372 |
| Investments | 1,413 | 847 |
| **Total tax deductible temporary differences** | **20,094** | **21,225** |
| Taxable temporary differences: | | |
| Tangible and intangible assets | (23,477) | (24,721) |
| Accrued interest income | (9,245) | (6,740) |
| Investments | (4,468) | (4,884) |
| **Total taxable temporary differences** | **(37,190)** | **(36,345)** |
| **Net taxable temporary differences** | (17,096) | (15,120) |
| Deferred tax liabilities at the combined statutory rate (26.28% for 2005 and 32.8% for 2004) | **(4,493)** | **(4,959)** |

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

| | Year ended 31 December 2005 | Year ended 31 December 2004 |
|---|---|---|
| Profit before taxation and after loss on net monetary position | 13,943 | 2,901 |
| Statutory effective tax rate | 32.80% | 32.80% |
| Theoretical tax at the statutory tax rate | 4,573 | 952 |
| Tax effect of permanent differences | 7,509 | (6,134) |
| Effect of change in tax rate | (1,115) | - |
| **Income tax expense/(recovery of income tax expense)** | **10,967** | **(5,182)** |
| Current income tax expense | 11,066 | 613 |
| Recovery of deferred tax liabilities | (99) | (5,795) |
| **Income tax expense/(recovery of income tax expense)** | **10,967** | **(5,182)** |

| **Deferred income tax liabilities** | Year ended 31 December 2005 | Year ended 31 December 2004 |
|---|---|---|
| At beginning of the period | 4,959 | 12,303 |
| Recovery of deferred tax liabilities | (99) | (5,795) |
| Gain on net monetary position | (367) | (1,549) |
| **At end of the period** | **4,493** | **4,959** |

Income tax liabilities consist of the following:

| | Year ended 31 December 2005 | Year ended 31 December 2004 |
|---|---|---|
| Current income tax liabilities | - | - |
| Deferred income tax liabilities | 4,493 | 4,959 |
| **Income tax liabilities** | **4,493** | **4,959** |

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

Cash and balances with the National Bank of the Republic of Belarus ("the NB RB") comprise:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Cash on hand | 22,703 | 22,068 |
| Balances with the NB RB | 64,560 | 39,294 |
| Accrued interest income on balances with the NB RB | 33 | 38 |
| **Total cash and balances with the NB RB** | **87,296** | **61,400** |

The balance with the NB RB as of 31 December 2005 and 2004 included amounts of BYR 51,551 million and BYR 35,656 million, respectively, represented by the minimum reserve deposit with the NB RB. The Bank is required to maintain the reserve balance at all times.

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

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Cash and balances with the NB RB | 83,882 | 58,100 |
| Loans and advances to banks in OECD countries | 73,874 | 23,147 |
| Government securities at fair value through profit or loss | 72,220 | 10,895 |
| Less minimum reserve deposit with the NB RB | (51,551) | (35,656) |
| **Total cash and cash equivalents** | **178,425** | **56,486** |

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

Loans and advances to banks comprise:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Loans to banks | 53,471 | 70,562 |
| Advances to banks | 77,348 | 56,041 |
| Accrued interest income on loans and advances to banks | 105 | 29 |
| | 130,924 | 126,632 |
| Less allowance for impairment losses | (4) | (586) |
| **Total loans and advances to banks, less allowance for impairment losses** | **130,920** | **126,046** |

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

As of 31 December 2005 and 2004 the advances to banks included fixed amounts of BYR 41,520 million and BYR 43,430 million, respectively, placed as guarantee deposits on letters of credit, operations with plastic cards and settlements with the international payment systems.

As of 31 December 2005 and 2004 the Bank had loans to three banks totalling BYR 32,798 million and loans to six banks totalling BYR 92,197 million, respectively, which individually exceeded 10% of the Bank's equity.

## 12. SECURITIES AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT

Securities at fair value through profit and loss account comprise:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Short-term government bonds (GKO) | 9,431 | 111 |
| Long-term government bonds (GDO) | 8,956 | 10,784 |
| Short-term bonds of the NB RB | 53,833 | - |
| Promissory notes of Belarusian banks | 8,925 | 4,193 |
| **Total securities at fair value through profit and loss account** | **81,145** | **15,088** |

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.

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.

Short-term bonds of the National Bank of the Republic of Belarus are Belarusian Rouble denominated securities purchased with discount to nominal value and maturity up to 1 month.

Promissory notes of Belarusian banks in the Bank's portfolio are Belarusian Rouble denominated debt securities purchased with discount to nominal value with maturities within one month as of 31 December 2005 and maturities ranging from 1 to 6 months as of 31 December 2004.

As of 31 December 2005 and 2004 included in securities at fair value through profit and loss is accrued interest income on debt securities amounting to BYR 1,507 million and BYR 1,593 million, respectively.

As of 31 December 2004 included in securities at fair value through profit and loss were GKO and GDO pledged under repurchase agreements amounting to BYR 1,162 million. Repurchase agreements for GKO had a maturity within one month, for GDO - within two months. Also, as of 31 December 2004 included in securities at fair value through profit and loss were promissory notes of Belarusian banks pledged under repurchase agreements amounting to BYR 2,132 million. Repurchase agreements for promissory notes of Belarusian banks had a maturity within three months.

## 13. LOANS TO CUSTOMERS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Loans to customers comprise the following:

| | **31 December 2005** | **31 December 2004** |
|---|---|---|
| Originated loans | 393,377 | 370,774 |
| Net investment in finance leases | 16,750 | 17,557 |
| Accrued interest income on loans to customers | 6,657 | 5,949 |
| | 416,784 | 394,280 |
| Less allowance for impairment losses | (15,743) | (17,447) |
| **Total loans to customers, less allowance for impairment losses** | **401,041** | **376,833** |

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

| | 2005 | 2004 |
|---|---|---|
| Loans collateralized by equipment and goods in turnover | 168,268 | 174,901 |
| Loans collateralized by real estate | 99,368 | 79,948 |
| Loans collateralized by guarantees of state bodies and local authorities | 20,144 | 19,468 |
| Loans collateralized by lien over receivables | 3,477 | 3,352 |
| Loans collateralized by corporate guarantees | 1,728 | 6,844 |
| Loans collateralized by cash | 317 | 70 |
| Loans collateralized by other types of collateral | 30,346 | 26,983 |
| Unsecured loans | 69,729 | 59,208 |
| **Total loans and advances to customers** | **393,377** | **370,774** |

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| **Analysis by industry:** | | |
| Manufacturing | 179,526 | 189,646 |
| Trade | 43,211 | 48,062 |
| Individuals | 34,804 | 20,023 |
| Construction | 23,782 | 7,861 |
| Finance lease | 15,947 | 17,558 |
| Factoring | 6,726 | 14,811 |
| Agricultural | 5,999 | 6,612 |
| Communications | 4,049 | 4,463 |
| Other | 96,083 | 79,295 |
| Accrued interest income on loans to customers | 6,657 | 5,949 |
| **Total loans to customers** | **416,784** | **394,280** |

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

As of 31 December 2005 and 2004 the Bank provided loans to six borrowers amounting to BYR 84,128 million and to seven borrowers amounting to BYR 135,137 million, respectively, which individually exceeded 10% of the Bank's equity.

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

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Not later than one year | 7,941 | 8,139 |
| From one year to five years | 12,194 | 13,193 |
| **Minimum lease payments** | 20,135 | 21,332 |
| Less unearned finance income | (3,385) | (3,775) |
| **Net investment in finance leases** | **16,750** | **17,557** |

## 14. INVESTMENTS LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Investments comprise:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Corporate shares available-for-sale | 621 | 138 |
| Investments in non-consolidated subsidiaries | 4,870 | 4,934 |
| | 5,491 | 5,072 |
| Less allowance for impairment losses | (1,331) | (774) |
| **Total investmen, less allowance for impairment losses** | **4,160** | **4,298** |

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

Investments in non-consolidated subsidiaries comprise:

| | % in equity % | 31 December 2005 | % in equity % | 31 December 2004 |
|---|---|---|---|---|
| - USP "Belvneshstrah" | 100% | 4,467 | 100% | 4,824 |
| - KSO "Vneshstrojinvest" OOO | 51% | 43 | 51% | 46 |
| - KSO "Vnesheconomstroj" OOO | 51% | 347 | 51% | 50 |
| - ZAO "Mezhotraslevoj institut nezavisimoj expertisy investitionnyh proektov"(Interindustry institute of independent assessment of investment projects) | 52% | 13 | 52% | 14 |
| | | 4,870 | | 4,934 |
| Less allowance for impairment losses | | (1,331) | | (774) |
| **Total investments in non-consolidated subsidiaries** | | **3,539** | | **4,160** |

As disclosed in Note 3, the Bank did not consolidate the financial statements of these subsidiaries into these financial statements and the investments are accounted for at cost restated for inflation less allowance for impairment.

As of 31 December 2005 and 2004 the Bank had an interest in the share capital of USP "Belvneshstrah" (registered in the Republic of Belarus) of 100%. The Company provides insurance services on the territory of the Republic of Belarus in area of international business.

As of 31 December 2005 and 2004 the Bank had an interest in the share capital of KSO "Vneshstrojinvest" OOO (registered in the Republic of Belarus) of 51%. The Company provides services in area of sports and recreation.

As of 31 December 2005 and 2004 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 2005 and 2004 the Bank had an interest in the share capital of ZAO "Mezhotraslevoj institute nezavisimoj expertisy investitionnyh proektov" (registered in the Republic of Belarus) of 52%. The Institute provides investment projects assessment services in the Republic of Belarus.

As of 31 December 2005 and 2004 the Bank had an interest in the share capital of ZAO SP "Belinterfinance" (registered in the Republic of Belarus) of 51% in the amount of BYR 53 thousand. The company renders finance lease services and performs wholesale activities.

## 15. TANGIBLE AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION

| | Buildings | Computer equipment | Vehicles | Furniture and other assets | Construction in progress | Intangible assets | Total |
|---|---|---|---|---|---|---|---|
| **At cost** | | | | | | | |
| 31 December 2004 | 43,473 | 2,784 | 13,211 | 86,959 | 4,093 | 80 | 150,600 |
| Additions | 4,569 | 1,501 | 19 | 1,532 | 201 | 8 | 7,830 |
| Disposals | (53) | - | (290) | (18,845) | (3,589) | (8) | (22,785) |
| 31 December 2005 | 47,989 | 4,285 | 12,940 | 69,646 | 705 | 80 | 135,645 |
| **Accumulated depreciation** | | | | | | | |
| 31 December 2004 | 2,497 | 453 | 11,219 | 61,343 | - | 39 | 75,551 |
| Charge for the year | 545 | 646 | 472 | 5,282 | - | 12 | 6,957 |
| Disposals | (1) | - | (290) | (18,800) | - | (5) | (19,096) |
| 31 December 2005 | 3,041 | 1,099 | 11,401 | 47,825 | - | 46 | 63,412 |
| **Net book value** | | | | | | | |
| 31 December 2005 | 44,948 | 3,186 | 1,539 | 21,821 | 705 | 34 | 72,233 |
| 31 December 2004 | 40,976 | 2,331 | 1,992 | 25,616 | 4,093 | 41 | 75,049 |

## 16. OTHER ASSETS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

Other assets comprise:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Prepaid expenses and other debtors | 2,427 | 4,448 |
| Taxes receivable, other than income taxes | 2,368 | 2,878 |
| Assets received through repossession of collateral | 1,065 | 1,764 |
| Settlements on capital investments and other accounts receivable | 363 | 910 |
| Other | 1,289 | 869 |
| | 7,512 | 10,869 |
| Less allowance for impairment losses on other assets | - | (773) |
| **Total other assets, less allowance for impairment losses** | **7,512** | **10,096** |

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

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

Due to the NB RB comprises the following:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Demand deposits of the NB RB | 4,110 | 584 |
| **Total due to the NB RB** | **4,110** | **584** |

## 18. LOANS AND ADVANCES FROM BANKS

Loans and advances from banks comprise:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Correspondent accounts of banks | 12,788 | 25,626 |
| Loans and deposits from banks | 57,173 | 67,890 |
| Loans under repurchase agreements | - | 3,279 |
| Accrued interest expenses | 80 | 83 |
| **Total loans and advances from banks** | **70,041** | **96,878** |

As of 31 December 2005 included into loans from banks is liability to an Italian insurance company in the total amount of BYR 3,690 million with the final maturity in June 2010. The liability was recognized as a result of execution of a letter of guarantee issued under international trade transaction. As of the date of approval of these financial statements, the Bank estimated probability of compensation from Bank's customer for execution of this guarantee by principal as remote.

As of 31 December 2005 included into loans from banks was BYR 45,192 million denominated in USD with International Commercial Bank of China (the Republic of China) with the final maturity in 2016 and interest rate of LIBOR+1%, which represents significant concentration (65% of loans and advances from banks).

As of 31 December 2004, included into loans and advances from banks were BYR 53,903 million and BYR 9,425 million with International Commercial Bank of China (the Republic of China) and JSC "Priorbank" (the Republic of Belarus), respectively, which represented 56% and 10% of total loans and advances from banks, respectively.

As of 31 December 2004 included in loans and advances from banks were repurchase agreements amounting to BYR 3,279 million with maturity of up to three months. Such agreements comprised loans under agreements to repurchase government bonds and promissory notes of Belarusian banks amounting to BYR 1,131 million and BYR 2,148 million, respectively. Such agreements were secured with the respective securities, included in securities at fair value through profit and loss, at fair value of BYR 1,162 million and BYR 2,132 million, respectively (see Note 12).

## 19. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Time deposits | 314,818 | 255,597 |
| Current deposits and deposits repayable on demand | 288,161 | 202,996 |
| Accrued interest expense on customer accounts | 1,448 | 1,107 |
| **Total customer accounts** | **604,427** | **459,700** |

As of 31 December 2005 and 2004 included in customer accounts are deposits repayable on demand denominated in platinum of BYR 3,414 million and BYR 3,300 million, respectively.

As of 31 December 2005 and 2004, customer accounts of BYR 26,077 million and BYR 22,786 million were held as security against letters of credit issued by the Bank, respectively.

| **Analysis by industry** | **31 December 2005** | **31 December 2004** |
|---|---|---|
| Manufacturing | 315,578 | 238,533 |
| Individuals | 245,174 | 191,307 |
| Transport and communication | 23,320 | 21,426 |
| Trade | 13,110 | 4,272 |
| Construction | 4,073 | 1,914 |
| Other | 1,724 | 1,141 |
| Accrued interest expense on customer accounts | 1,448 | 1,107 |
| **Total customer accounts** | **604,427** | **459,700** |

## 20. OTHER LIABILITIES

Other liabilities comprise:

| | **31 December 2005** | **31 December 2004** |
|---|---|---|
| Taxes payable, other than income taxes | 2,448 | 406 |
| Provision for losses on guarantees | 1,909 | 1,280 |
| Provision for losses on letters of credit and related claims | 209 | 2,937 |
| Settlements on capital investments and other accounts payable | 1,796 | 3,634 |
| Settlement on finance lease transactions | 87 | 30 |
| Other | 331 | 145 |
| **Total other liabilities** | **6,780** | **8,432** |

Movements in provisions for losses on guarantees and other off-balance sheet commitments for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

## 21. SHARE CAPITAL

As of 31 December 2005 and 2004 the authorized, issued and fully paid share capital comprised 241,579,330 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 2005 and 2004 the Bank repurchased 72,428 and 49,885 treasury ordinary shares, respectively.

## 22. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

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

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Nominal Amount** | **Risk Weighted Amount** | **Nominal Amount** | **Risk Weighted Amount** |
| **Contingent liabilities and credit commitments** | | | | |
| Guarantees issued and similar commitments | 59,829 | 59,829 | 75,570 | 75,570 |
| Letters of credit and other contingent obligations | 70,926 | 18,854 | 216,760 | 29,256 |
| Commitments on credits and unused credit lines | 55,204 | 4,550 | 37,929 | 4,812 |
| **Total contingent liabilities and credit commitments** | **185,959** | **83,233** | **330,259** | **109,638** |

As of 31 December 2005 and 2004 the Bank has made a provision of BYR 1,909 million and BYR 1,280 million, respectively, against commitments under guarantees issued.

As of 31 December 2005 and 2004 the Bank has made a provision of BYR 209 million and BYR 2,937 million, respectively, against commitments under letters of credit issued.

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

**Operating leases** - The Bank's future minimum rental payments under non-cancelable operating leases in effect as of 31 December 2005 and 2004 are presented below:

| | **31 December 2005** | **31 December 2004** |
|---|---|---|
| Not later than 1 year | 651 | 462 |
| Later than 1 year but not later than 5 years | 339 | 1,542 |
| **Total future minimum rental payments** | **990** | **2,004** |

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

As of 31 December 2005, the Bank has a contingent liability relating to lawsuit that was filed in June 2005 by an executing bank in Austria under letter of credit issued by order of a Belarusian importer. The Austrian bank claimed that the Bank should compensate its losses under another lawsuit lost to the exporter, on the grounds that the Bank did not comply with the terms of the letter of credit and did not make settlement thereon. The claim amounted to EUR 644,297. As of 31 December 2004, management assessed likelihood of loss as probable and therefore created a provision in the amount of the total claim of BYR 2,056 million. In 2005 the Bank engaged an Austrian law firm to consult on the matter and to represent the Bank in defending the legal action initiated by the executing bank. In 2005 based on further investigation of details of the allegation and consultations with the law firm, management re assessed likelihood of the loss as possible and therefore released the provision.

**Pensions and retirement plans** - Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As of 31 December 2005 and 2004, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## 23. EVENTS AFTER THE BALANCE SHEET DATE

Dividends in the amount of BYR 3,058 million for the year 2005 were declared and paid in March 2006. 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 2005.

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

## 24. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24 "Related party disclosures", are those counterparties that represent:

a. enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank. (This includes holding companies, subsidiaries and fellow subsidiaries);

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

c. individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

d. key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals;

e. enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank;

f. parties with joint control over the Bank;

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

h. post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party to the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As of 31 December 2005 and 2004 the Bank had the following transactions outstanding with related parties:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | 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** | **64,593** | **64,593** | **39,332** | **39,332** |
| **Loans and advance to banks, gross** | **37,157** | **130,924** | **43,014** | **126,632** |
| including: | | | | |
| - shareholders | 1,621 | | 927 | |
| - state entities (under common control of the State) | 35,536 | | 42,087 | |
| **Allowance for impairment losses on loans to banks** | **-** | **(4)** | **(579)** | **(586)** |
| including: | | | | |
| - shareholders | - | | (9) | |
| - state entities (under common control of the State) | - | | (570) | |
| **Securities at fair value through profit and loss account** | **81,145** | **81,145** | **12,977** | **15,088** |
| including: | | | | |
| - shareholders | 53,833 | | - | |
| - state entities (under common control of the State) | 27,312 | | 12,977 | |
| **Loans to customers, gross** | **183,573** | **416,784** | **177,446** | **394,280** |
| including: | | | | |
| - unconsolidated subsidiaries | 23,655 | | 24,712 | |
| - state entities (under common control of the State) | 159,352 | | 152,369 | |
| - key management personnel of the Bank | 566 | | 365 | |
| **Allowance for impairment losses on loans to customers** | **(5,669)** | **(15,743)** | **(7,241)** | **(17,447)** |
| including: | | | | |
| - unconsolidated subsidiaries | (2,523) | | (2,348) | |
| - state entities (under common control of the State) | (3,146) | | (4,893) | |
| **Investments available for sale, gross** | **4,908** | **5,491** | **4,975** | **5,072** |
| including: | | | | |
| - unconsolidated subsidiaries | 4,870 | | 4,934 | |
| - state entities (under common control of the State) | 38 | | 41 | |
| **Allowance for impairment losses on investments available for sale** | **(1,331)** | **(1,331)** | **(774)** | **(774)** |
| including: | | | | |
| - unconsolidated subsidiaries | (1,331) | | (774) | |
| **Due to the NB RB** | **4,110** | **4,110** | **584** | **584** |
| **Loans and advances from banks** | **2,574** | **70,041** | **11,022** | **96,878** |
| including: | | | | |
| - shareholders | 24 | | 8,349 | |
| - state entities (under common control of the State) | 2,550 | | 2,673 | |
| **Customer accounts** | **159,898** | **604,427** | **85,523** | **459,700** |
| including: | | | | |
| - unconsolidated subsidiaries | 3,602 | | 4,375 | |
| - state entities (under common control of the State) | 154,875 | | 79,799 | |
| - key management personnel of the Bank | 1,421 | | 1,349 | |
| **Financial commitments and contingencies** | **108,793** | **185,959** | **63,350** | **330,259** |
| including: | | | | |
| - unconsolidated subsidiaries | 653 | | 1,526 | |
| - state entities (under common control of the State) | 108,004 | | 61,794 | |
| - key management personnel of the Bank | 136 | | 30 | |
| **Provision for guarantees and other off-balance sheet commitments** | **(1,693)** | **(2,118)** | **(1,494)** | **(4,217)** |
| including: | | | | |
| - shareholders | - | | (323) | |
| - state entities (under common control of the State) | (1,693) | | (1,171) | |

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

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| **Interest income** | **10,673** | **62,681** | **10,296** | **58,883** |
| including: | | | | |
| - shareholders | 117 | | 30 | |
| - unconsolidated subsidiaries | 459 | | 754 | |
| - state entities (under common control of the State) | 10,092 | | 9,510 | |
| - key management personnel of the Bank | 5 | | 2 | |
| **Fee and commission income** | **7,309** | **33,963** | **6,889** | **34,748** |
| including: | | | | |
| - shareholders | 33 | | 479 | |
| - unconsolidated subsidiaries | 114 | | 365 | |
| - associated companies | 2 | | 4 | |
| - state entities (under common control of the State) | 7,160 | | 6,041 | |
| **Income from transactions with securities** | **1,623** | **5,497** | **59** | **6,327** |
| including: | | | | |
| - shareholders | 977 | | - | |
| - state entities (under common control of the State) | 646 | | 59 | |
| **Interest expense** | **4,297** | **34,610** | **4,460** | **34,860** |
| including: | | | | |
| - shareholders | 622 | | 663 | |
| - unconsolidated subsidiaries | 92 | | 169 | |
| - state entities (under common control of the State) | 3,378 | | 3,454 | |
| - key management personnel of the Bank | 205 | | 174 | |
| **Fee and commission expense** | **13** | **2,386** | **161** | **2,056** |
| including: | | | | |
| - shareholders | - | | 101 | |
| - state entities (under common control of the State) | 13 | | 60 | |
| **Staff costs** | **1,525** | **22,237** | **1,547** | **23,522** |
| including: | | | | |
| - key management personnel of the Bank | 1,525 | | 1,547 | |

## 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As of 31 December 2005 and 2004 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

**Cash and balances with the National Bank** - 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** - The carrying amount of deposits and advances given is a reasonable estimate of their fair value.

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

**Loans to customers** - The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

**Investments** - As of 31 December 2005 and 2004 equity securities available for sale are stated at cost, less allowance for impairment, if any. Fair value for these securities can not be determined with reference to an active market. Management estimation of their recoverable amount was done based on available business and financial information of the issuers. The carrying amount of equity securities available for sale approximates its fair value.

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

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

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

## 26. REGULATORY MATTERS

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

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

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

| **Estimate** | **Description of position** |
|---|---|
| 0% | Cash and balances with the National Bank |
| 0% | State debt securities |
| 20% | Loans and advances to banks for up to 1 year, securities issued by banks |
| 100% | Loans to customers |
| 100% | Guarantees issued and similar commitments |
| 50% | Obligations and commitments on unused loans with the initial maturity of over 1 year |
| 100% | Other assets |

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

| **Capital amounts and ratios** | **Actual amount** | **For Capital Adequacy purposes** | **Ratio for Capital Adequacy purposes %** | **Minimum Required Ratio %** |
|---|---|---|---|---|
| **At 31 December 2005** | | | | |
| Total capital | 94,784 | 91,648 | 15.72% | 8% |
| Tier 1 capital | 94,784 | 94,784 | 16.26% | 4% |
| **At 31 December 2004** | | | | |
| Total capital | 97,425 | 93,374 | 15.53% | 8% |
| Tier 1 capital | 97,425 | 97,425 | 16.20% | 4% |

## 27. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates, prices for 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.

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Bank's interest rate policy is analyzed and developed by the Banking Risks Management Committee and approved by the Board of the Bank.

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 2005 and 2004 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.

| | **2005** | | **2004** | |
|---|---|---|---|---|
| | **BYR** | **Foreign currencies** | **BYR** | **Foreign currencies** |
| **ASSETS** | | | | |
| Loans and advances to banks | 3%-26% | 2%-11.5% | 15.0%-26.0% | 0.8%-8.0% |
| Securities at fair value through profit and loss account | 12.0%-56.1% | 6.6%-8.2% | 18.3%-45.0% | 8.0%-10.0% |
| Loans to customers | 12.0%-21.0% | 18.5%-16.6% | 18.0%-36.0% | 8.0%-18.0% |
| **LIABILITIES** | | | | |
| Loans and advances from banks | 3%-22% | 2.9%-8.5% | 20.0%-30.0% | 3.0%-4.5% |
| Customer accounts | 2.8%-20.9% | 2.0%-9.0% | 3.0%-19.1% | 0.8%-7.4% |
| Debt securities issued | 10.4% | - | 0%-18% | - |

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

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 2005 BYR million Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Balances with the NB RB | 9,096 | 1,227 | 2,187 | - | - | - | - | 12,510 |
| Loans and advances to banks, less allowance for impairment losses | 33,002 | 2,782 | 37,511 | 8,151 | - | - | - | 81,446 |
| Securities at fair value through profit and loss account | 81,145 | - | - | - | - | - | - | 81,145 |
| Loans to customers, less allowance for impairment losses | 53,507 | 113,290 | 144,484 | 81,853 | 1,978 | 5,505 | - | 400,617 |
| Total interest bearing assets | 176,750 | 117,299 | 184,182 | 90,004 | 1,978 | 5,505 | - | 575,718 |
| Cash and balances with the NB RB | 23,235 | - | - | - | - | - | 51,551 | 74,786 |
| Precious metals | 353 | - | - | - | - | - | - | 353 |
| Loans and advances to banks, less allowance for impairment losses | 49,474 | - | - | - | - | - | - | 49,474 |
| Loans to customers, less allowance for impairment losses | - | - | - | - | - | 424 | - | 424 |
| Investments, less allowance for impairment losses | - | - | - | 4,160 | - | - | - | 4,160 |
| Tangible and intangible assets, less accumulated depreciation and amortization | - | - | - | - | - | - | 72,233 | 72,233 |
| Other assets, less allowance for impairment losses | 1,615 | 285 | 1,065 | 1,859 | - | - | 2,688 | 7,512 |
| TOTAL ASSETS | 251,427 | 117,584 | 185,247 | 96,023 | 1,978 | 5,929 | 126,472 | 784,660 |
| **LIABILITIES** | | | | | | | | |
| Loans and advances from banks | - | 2,561 | 4,865 | 865 | 48,882 | - | - | 57,173 |
| Customer accounts | 55,910 | 85,112 | 142,531 | 35,054 | - | - | - | 318,607 |
| Debt securities issued | 5 | - | - | - | - | - | - | 5 |
| Total interest bearing liabilities | 55,915 | 87,673 | 147,396 | 35,919 | 48,882 | - | - | 375,785 |
| Due to the NB RB | 4,110 | - | - | - | - | - | - | 4,110 |
| Loans and advances from banks | 12,888 | - | - | - | - | - | - | 12,888 |
| Customer accounts | 285,820 | - | - | - | - | - | - | 285,820 |
| Deferred income tax liabilities | - | - | 1,666 | 803 | 2,024 | - | - | 4,493 |
| Other liabilities | 2,747 | 202 | 2,024 | 1,412 | 395 | - | - | 6,780 |
| TOTAL LIABILITIES | 361,480 | 87,875 | 151,086 | 38,134 | 51,301 | - | - | 689,876 |
| Liquidity gap | (110,053) | 29,709 | 34,161 | 57,889 | (49,323) | | | |
| Interest sensitivity gap | 120,835 | 29,626 | 36,786 | 54,085 | (46,904) | | | |
| Cumulative interest sensitivity gap | 120,835 | 150,461 | 187,247 | 241,332 | 194,428 | | | |
| Cumulative interest sensitivity gap as a percentage of total assets | 15.4% | 19.2% | 23.9% | 30.8% | 24.8% | | | |

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 2004 BYR million Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| Cash and balances with the NB RB | 39 | - | 3,300 | - | - | - | - | 3,339 |
| Loans and advances to banks, less allowance for impairment losses | 65,580 | 5,977 | 5,022 | 6,558 | 77 | - | - | 83,214 |
| Securities at fair value through profit and loss account | 12,183 | 2,900 | 5 | - | - | - | - | 15,088 |
| Loans to customers, less allowance for impairment losses | 46,885 | 104,597 | 118,048 | 93,824 | 11,980 | 1,403 | - | 376,737 |
| Total interest bearing assets | 124,687 | 113,474 | 126,375 | 100,382 | 12,057 | 1,403 | - | 478,378 |
| Cash and balances with the NB RB | 22,405 | - | - | - | - | - | 35,656 | 58,061 |
| Precious metals | 105 | - | - | - | - | - | - | 105 |
| Loans and advances to banks, less allowance for impairment losses | 42,701 | - | - | 131 | - | - | - | 42,832 |
| Loans to customers, less allowance for impairment losses | - | - | - | - | - | 96 | - | 96 |
| Investments, less allowance for impairment losses | - | - | - | 4,298 | - | - | - | 4,298 |
| Tangible and intangible assets, less accumulated depreciation and amortization | - | - | - | - | - | - | 75,049 | 75,049 |
| Other assets, less allowance for impairment losses | 6,067 | 551 | 323 | 3,155 | - | - | - | 10,096 |
| TOTAL ASSETS | 195,965 | 114,025 | 126,698 | 107,966 | 12,057 | 1,499 | 110,705 | 668,915 |
| **LIABILITIES** | | | | | | | | |
| Due to the NB RB | 584 | - | - | - | - | - | - | 584 |
| Loans and advances from banks | 15,427 | 1,636 | 430 | 204 | 53,903 | - | - | 71,600 |
| Customer accounts | 29,798 | 54,240 | 126,204 | 46,440 | 22 | - | - | 256,704 |
| Debt securities issued | 557 | 33 | 64 | - | - | - | | 654 |
| Total interest bearing liabilities | 46,366 | 55,909 | 126,698 | 46,644 | 53,925 | - | - | 329,542 |
| Loans and advances from banks | 25,300 | - | - | - | - | - | - | 25,300 |
| Customer accounts | 202,996 | - | - | - | - | - | - | 202,996 |
| Debt securities issued | 243 | 18 | - | - | - | - | - | 261 |
| Deferred income tax liabilities | - | - | 1,687 | 1,324 | 1,948 | - | - | 4,959 |
| Other liabilities | 3,037 | 680 | 1,465 | 3,250 | - | - | - | 8,432 |
| TOTAL LIABILITIES | 277,942 | 56,607 | 129,850 | 51,218 | 55,873 | - | - | 571,490 |
| Liquidity gap | (81,977) | 57,418 | (3,152) | 56,748 | (43,816) | | | |
| Interest sensitivity gap | 78,321 | 57,565 | (323) | 53,738 | (41,868) | | | |
| Cumulative interest sensitivity gap | 78,321 | 135,886 | 135,563 | 189,301 | 147,433 | | | |
| Cumulative interest sensitivity gap as a percentage of total assets | 12.6% | 21.9% | 21.9% | 30.6% | 23.8% | | | |

**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 limits comprising the open currency position limit set for the Bank, and open currency position limits of the Bank's branches. The limits are set in compliance with requirements of the National Bank of the Republic of Belarus and approved by the Board.

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

| | | | | | | 2005 |
|---|---|---|---|---|---|---|
| | BYR and non-monetary items | USD 1USD= BYR 2,152 | EUR 1EUR= BYR 2,546.35 | RUB 1RUB=BYR 74.86 | Other currencies | BYR million Total |
| **ASSETS** | | | | | | |
| Cash and balances with the NB RB | 65,882 | 16,857 | 3,085 | 1,131 | 341 | 87,296 |
| Precious metals | 353 | - | - | - | - | 353 |
| Loans and advances to banks, less allowance for impairment losses | 13,498 | 57,121 | 43,660 | 11,966 | 4,675 | 130,920 |
| Securities at fair value through profit and loss account | 72,568 | 1,915 | 6,662 | - | - | 81,145 |
| Loans to customers, less allowance for impairment losses | 122,010 | 235,176 | 36,222 | 7,633 | - | 401,041 |
| Investments, less allowance for impairment losses | 4,160 | - | - | - | - | 4,160 |
| Tangible and intangible assets, less accumulated depreciation and amortization | 72,233 | - | - | - | - | 72,233 |
| Other assets, less allowance for impairment losses | 7,329 | 104 | 37 | 22 | 20 | 7,512 |
| TOTAL ASSETS | 358,033 | 311,173 | 89,666 | 20,752 | 5,036 | 784,660 |
| **LIABILITIES** | | | | | | |
| Due to the NB RB | - | 547 | 8 | - | 3,555 | 4,110 |
| Loans and advances from banks | 7,764 | 56,728 | 4,869 | 639 | 41 | 70,041 |
| Government loans | 20 | - | - | - | - | 20 |
| Customer accounts | 234,557 | 255,470 | 94,766 | 19,262 | 372 | 604,427 |
| Debt securities issued | 5 | - | - | - | - | 5 |
| Deferred income tax liabilities | 4,493 | - | - | - | - | 4,493 |
| Other liabilities | 2,098 | 3,836 | 520 | 318 | 8 | 6,780 |
| TOTAL LIABILITIES | 248,937 | 316,581 | 100,163 | 20,219 | 3,976 | 689,876 |
| CURRENCY POSITION | 109,096 | (5,408) | (10,497) | 533 | 1,060 | |

Analysis of currency risk on derivative financial instruments and spot deals as of 31 December 2005 is presented in the following table:

| | BYR | USD 1USD= BYR 2,152 | EUR 1EUR= BYR 2,546.35 | RUB 1RUB=BYR 74.86 | Other currencies | 31 December 2005 BYR million Total |
|---|---|---|---|---|---|---|
| Accounts payable on spot and swap deals | 249 | 9,090 | - | - | - | 9,339 |
| Accounts receivable on spot and swap deals | - | 172 | 9,179 | | - | 9,351 |
| NET POSITION ON SPOT AND SWAP DEALS | (249) | (8,918) | 9,179 | - | - | 12 |
| TOTAL OPEN POSITION | 108,847 | (14,326) | (1,318) | 533 | 1,060 | |

| | BYR and non-monetary items | USD 1USD= BYR 2,170 | EUR 1EUR= BYR 2,955.65 | RUB 1RUB=BYR 77.91 | Other currencies | 2004 BYR million Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with the NB RB | 45,026 | 8,486 | 3,124 | 1,158 | 3,606 | 61,400 |
| Precious metals | 105 | - | - | - | - | 105 |
| Loans and advances to banks, less allowance for impairment losses | 40,600 | 46,871 | 32,189 | 4,465 | 1,921 | 126,046 |
| Securities at fair value through profit and loss account | 15,088 | - | - | - | - | 15,088 |
| Loans to customers, less allowance for impairment losses | 82,336 | 245,227 | 35,600 | 13,670 | - | 376,833 |
| Investments, less allowance for impairment losses | 4,298 | - | - | - | - | 4,298 |
| Tangible and intangible assets, less accumulated depreciation and amortization | 75,049 | - | - | - | - | 75,049 |
| Other assets, less allowance for impairment losses | 8,722 | 1,264 | 54 | 31 | 25 | 10,096 |
| TOTAL ASSETS | 271,224 | 301,848 | 70,967 | 19,324 | 5,552 | 668,915 |
| **LIABILITIES** | | | | | | |
| Due to the NB RB | - | 141 | 3 | 10 | 430 | 584 |
| Loans and advances from banks | 25,702 | 69,535 | 1,224 | 370 | 47 | 96,878 |
| Government loans | 22 | - | - | - | - | 22 |
| Customer accounts | 129,046 | 239,030 | 73,870 | 13,872 | 3,882 | 459,700 |
| Debt securities issued | 915 | - | - | - | - | 915 |
| Deferred income tax liabilities | 4,959 | - | - | - | - | 4,959 |
| Other liabilities | 697 | 4,834 | 2,894 | 2 | 5 | 8,432 |
| TOTAL LIABILITIES | 161,341 | 313,540 | 77,991 | 14,254 | 4,364 | 571,490 |
| CURRENCY POSITION | 109,883 | (11,692) | (7,024) | 5,070 | 1,188 | |

As of 31 December 2004 the Bank had no contractual obligations on transactions with derivative financial instruments or spot contracts.

**Market Risk**

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

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

**Credit risk**

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

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, and to industry segments. Limits on the level of credit risk by a borrower are monthly reviewed and approved by the Board. The exposure to any one borrower is also restricted by limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

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.

**Geographical concentration**

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

| | Belarus | Other CIS countries | OECD countries | Other non-OECD countries | 2005 BYR million Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with the NB RB | 87,296 | - | - | - | 87,296 |
| Precious metals | 353 | - | - | - | 353 |
| Loans and advances to banks, less allowance for impairment losses | 42,510 | 9,168 | 78,878 | 364 | 130,920 |
| Securities at fair value through profit and loss account | 81,145 | - | - | - | 81,145 |
| Loans to customers, less allowance for impairment losses | 401,041 | - | - | - | 401,041 |
| Investments, less allowance for impairment losses | 4,160 | - | - | - | 4,160 |
| Tangible and intangible assets, less accumulated depreciation and amortization | 72,233 | - | - | - | 72,233 |
| Other assets, less allowance for impairment losses | 7,512 | - | - | - | 7,512 |
| TOTAL ASSETS | 696,250 | 9,168 | 78,878 | 364 | 784,660 |
| **LIABILITIES** | | | | | |
| Due to the NB RB | 4,110 | - | - | - | 4,110 |
| Loans and advances from banks | 6,324 | 7,139 | 9,693 | 46,885 | 70,041 |
| Government loans | 20 | - | - | - | 20 |
| Customer accounts | 590,781 | 2,909 | 4,308 | 6,429 | 604,427 |
| Debt securities issued | 5 | - | - | - | 5 |
| Deferred income tax liabilities | 4,493 | - | - | - | 4,493 |
| Other liabilities | 6,705 | 75 | - | - | 6,780 |
| TOTAL LIABILITIES | 612,438 | 10,123 | 14,001 | 53,314 | 689,876 |
| NET BALANCE SHEET POSITION | 83,812 | (955) | 64,877 | (52,950) | |

| | Belarus | Other CIS countries | OECD countries | Other non-OECD countries | 2004 BYR million Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with the NB RB | 61,400 | - | - | - | 61,400 |
| Precious metals | 105 | - | - | - | 105 |
| Loans and advances to banks, less allowance for impairment losses | 52,832 | 6,385 | 66,425 | 404 | 126,046 |
| Securities at fair value through profit and loss account | 15,088 | - | - | - | 15,088 |
| Loans to customers, less allowance for impairment losses | 376,833 | - | - | - | 376,833 |
| Investments, less allowance for impairment losses | 4,298 | - | - | - | 4,298 |
| Tangible and intangible assets, less accumulated depreciation and amortization | 75,049 | - | - | - | 75,049 |
| Other assets, less allowance for impairment losses | 10,096 | - | - | - | 10,096 |
| TOTAL ASSETS | 595,701 | 6,385 | 66,425 | 404 | 668,915 |
| **LIABILITIES** | | | | | |
| Due to the NB RB | 584 | - | - | - | 584 |
| Loans and advances from banks | 17,684 | 24,474 | 388 | 54,332 | 96,878 |
| Government loans | 22 | - | - | - | 22 |
| Customer accounts | 452,204 | 2,020 | 253 | 5,223 | 459,700 |
| Debt securities issued | 915 | - | - | - | 915 |
| Deferred income tax liabilities | 4,959 | - | - | - | 4,959 |
| Other liabilities | 5,672 | - | - | 2,760 | 8,432 |
| TOTAL LIABILITIES | 482,040 | 26,494 | 641 | 62,315 | 571,490 |
| NET BALANCE SHEET POSITION | 113,661 | (20,109) | 65,784 | (61,911) | |

## 28. UNCERTAINTY

**Economy of the Republic of Belarus** - Currently the economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. In recent years inflation has significantly decreased, however, still it is assessed to be on a high level. Laws and regulations defining the business environment in the Republic of Belarus are at the stage of development and subject to changes. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of Belarus and other actions beyond the Bank's control. The recoverability of the Bank's assets and the ability of the Bank to maintain or pay its debts as they mature, as well as the future operations of the Bank are heavily dependent on future direction of the economic policy of the Government of the Republic of Belarus.

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

**Legislation** - Certain provisions of Belarusian commercial legislation and tax legislation in particular may give rise to varying interpretations and inconsistent application. In addition, as management's interpretation of legislation may differ from that of the authorities, statutory compliance may be challenged by the authorities, and as result the Bank may face additional taxes and charges and other preventive measures. The management of the Bank believes that it has already made all tax and other payments or accruals, and therefore no additional allowance has been made in the financial statements. Past fiscal years remain open to review by the authorities.

# CONTACT INFORMATION

## BELVNESHECONOMBANK BRANCHES, CENTERS OF BANKING SERVICES, FOREIGN REPRESENTATIVE OFFICES, SUBSIDIARIES AND ASSOCIATED COMPANY

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