

**Joint Stock Company  
“Savings Bank  
“Belarusbank”**

**Independent Auditors’ Report**

**Consolidated Financial Statements**  
For the Year Ended 31 December 2006

# JOINT STOCK COMPANY “SAVINGS BANK “BELARUSBANK”

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## JOINT STOCK COMPANY “SAVINGS BANK “BELARUSBANK”

### STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as of 31 December 2006, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2006 were authorized for issue on 20 April 2007 by the Management Board.

On behalf of the Management Board

Chairman



Chief accountant



## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of the Joint Stock Company "Savings Bank "Belarusbank":

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Joint Stock Company "Savings Bank "Belarusbank" and its subsidiaries (hereinafter - the "Group") which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Group as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 15 describing the fact that due to absence of a market of financial instruments similar to non-market housing loans issued by the Bank to individuals, there is significant uncertainty as to the interest rate used for estimation of the fair value of the loans issued and respective resources received and later contributed to the share capital at their initial recognition.

Without qualifying our opinion we also draw attention to Note 4 discussing the restatement of the financial statements for the year ended 31 December 2005.

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

*Deloitte & Touche*

20 April 2007

Minsk

# JOINT STOCK COMPANY “SAVINGS BANK “BELARUSBANK”

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

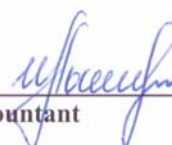
	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
Interest income	6, 27	947,243	747,794
Interest expense	6, 27	(564,765)	(409,425)
Loss on initial recognition of financial instruments issued at non-market terms, net		(31,558)	(31,804)
Gain on early repayment of loans issued at non-market terms	15	27,641	17,525
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		378,561	324,090
Provision for impairment losses on interest bearing assets	7, 27	(63,296)	(13,926)
NET INTEREST INCOME		315,265	310,164
Net gain on securities		406	966
Net gain on foreign exchange operations	8	89,533	67,096
Fee and commission income	9, 27	308,489	236,784
Fee and commission expense	9, 27	(35,895)	(34,027)
Other income	10	23,627	24,545
NET NON-INTEREST INCOME		386,160	295,364
OPERATING INCOME		701,425	605,528
OPERATING EXPENSES	11, 27	(534,179)	(437,325)
OPERATING PROFIT		167,246	168,203
Provision for impairment losses on other assets and securities available for sale	7	(424)	(560)
Provision for losses on off-balance sheet commitments	7	(26,626)	(1,067)
PROFIT BEFORE LOSS ON NET MONETARY POSITION AND INCOME TAXES		140,196	166,576
Loss on net monetary position due to inflation effect		-	(18,912)
PROFIT BEFORE INCOME TAXES		140,196	147,664
Income taxes expense	12	(52,816)	(95,555)
NET PROFIT		87,380	52,109
Attributable to:			
Equity holders of the parent		85,274	50,248
Minority interest		2,106	1,861
		87,380	52,109

On behalf of the Management Board

Chairman



Chief accountant



The notes on pages 9 to 50 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

# JOINT STOCK COMPANY “SAVINGS BANK “BELARUSBANK”

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

	Notes	31 December 2006	31 December 2005 (restated)
<b>ASSETS:</b>			
Cash, balances with the National Bank and precious metals	13, 27	997,428	992,405
Due from banks	14, 27	163,167	124,624
Loans to customers	15, 27	9,064,133	5,542,525
Securities available for sale	16, 27	989,183	594,757
Securities held to maturity	17, 27	101,348	134,191
Property, equipment and intangible assets	18	436,858	349,403
Other assets	19	95,306	77,300
<b>TOTAL ASSETS</b>		<b>11,847,423</b>	<b>7,815,205</b>
<b>LIABILITIES AND EQUITY:</b>			
<b>LIABILITIES:</b>			
Due to banks	20, 27	1,777,793	478,167
Customer accounts	21, 27	8,619,123	6,285,652
Debt securities issued	22	81,666	60,450
Other liabilities	23	96,357	57,061
<b>Total liabilities</b>		<b>10,574,939</b>	<b>6,881,330</b>
<b>EQUITY:</b>			
Equity attributable to equity holders of the parent:			
Share capital	24	1,130,923	874,899
Treasury stock		(3,270)	(3,348)
Retained earnings		137,648	56,650
<b>Total equity attributable to equity holders of the parent</b>		<b>1,265,301</b>	<b>928,201</b>
Minority interest		7,183	5,674
<b>Total equity</b>		<b>1,272,484</b>	<b>933,875</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>11,847,423</b>	<b>7,815,205</b>

On behalf of the Management Board

Chairman

Chief accountant

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# JOINT STOCK COMPANY “SAVINGS BANK “BELARUSBANK”

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

	Notes	Share capital	Treasury stock	Retained earnings	Total equity attributable to equity holders of the parent	Minority interest	Total equity
<b>31 December 2004 as previously reported</b>		487,499	(3,348)	78,217	562,368	-	562,368
Recognition of loss from change of interest rates on non-market loans to individuals	4	-	-	(65,614)	(65,614)	-	(65,614)
Consolidation of subsidiaries	4	-	-	2,887	2,887	4,038	6,925
<b>31 December 2004 (restated)</b>		487,499	(3,348)	15,490	499,641	4,038	503,679
Share capital increase	24	378,322	-	-	378,322	-	378,322
Capitalization of statutory reserves	24	9,078	-	(9,078)	-	-	-
Net profit (restated)		-	-	50,248	50,248	1,861	52,109
Dividends declared and paid (restated)		-	-	(10)	(10)	(225)	(235)
<b>31 December 2005 (restated)</b>		874,899	(3,348)	56,650	928,201	5,674	933,875
Share capital increase	24	256,024	-	-	256,024	-	256,024
Sale of treasury stock		-	78	(48)	30	-	30
Net profit		-	-	85,274	85,274	2,106	87,380
Dividends declared and paid		-	-	(4,228)	(4,228)	(597)	(4,825)
<b>31 December 2006</b>		<u>1,130,923</u>	<u>(3,270)</u>	<u>137,648</u>	<u>1,265,301</u>	<u>7,183</u>	<u>1,272,484</u>

On behalf of the Management Board

Chairman

Chief accountant

The notes on pages 9 to 50 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

# JOINT STOCK COMPANY “SAVINGS BANK “BELARUSBANK”

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

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before taxation and loss on net monetary position		140,196	166,576
Adjustments for:			
Provision for impairment losses on interest bearing assets		63,296	13,926
Provision for impairment losses on other assets and securities available for sale		424	560
Provision for losses on off-balance sheet commitments		26,626	1,067
Loss on initial recognition of financial instruments issued at non-market terms, net		31,558	31,804
Unwinding of interest income		(47,305)	(43,513)
Gain on early repayment of loans issued at non-market terms		(27,641)	(17,525)
Depreciation and amortization		51,285	53,707
(Gain)/loss on disposal of tangible and intangible assets		(3,540)	1,287
Loss due to a subsidiary bank acquisition		-	10,663
Net gain on revaluation of foreign currency assets and liabilities		(3,644)	(866)
Net change in interest accruals		12,590	(4,449)
Net change in other accrued income		(1,474)	9,335
		<u>242,371</u>	<u>222,572</u>
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the National Bank		(67,955)	(10,727)
Due from banks		(13,754)	(109,684)
Loans to customers		(3,529,790)	(1,363,234)
Other assets		(7,947)	(23,585)
Increase/(decrease) in operating liabilities:			
Due to banks		1,291,415	(96,587)
Customer accounts		2,302,369	1,748,412
Other liabilities		(5,144)	(55,674)
		<u>211,565</u>	<u>311,493</u>
Cash inflow from operating activities before taxation			
Income taxes paid		(56,565)	(98,682)
		<u>155,000</u>	<u>212,811</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of subsidiary		-	(997)
Purchase of tangible and intangible assets		(126,165)	(75,690)
Proceeds on sale of tangible and intangible assets		6,948	1,607
Purchase of securities available for sale, net		(134,184)	(54,607)
Repayment of securities held to maturity		36,437	61,773
		<u>(216,964)</u>	<u>(67,914)</u>
Net cash outflow from investing activities			

# JOINT STOCK COMPANY “SAVINGS BANK “BELARUSBANK”

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

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds on share capital increase		-	52,443
Long-term deposits for financing of housing loans to individuals		-	43,574
Dividends paid		(4,825)	(235)
Proceeds on sale of debt securities issued, net		18,842	29,089
Sale of treasury stock		30	-
		<u>14,047</u>	<u>124,871</u>
Net cash inflow from financing activities			
		<u>14,047</u>	<u>124,871</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(47,917)	269,768
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		2,016	(1,881)
INFLATION EFFECT ON MONETARY ITEMS (EXCEPT ALLOWANCES)		-	(34,779)
CASH AND CASH EQUIVALENTS, beginning of year	13	<u>681,351</u>	<u>448,243</u>
CASH AND CASH EQUIVALENTS, end of year	13	<u><u>635,450</u></u>	<u><u>681,351</u></u>

Interest paid and received by the Group during the year ended 31 December 2006 amounted to BYR 552,253 million and BYR 947,279 million, respectively.

Interest paid and received by the Group during the year ended 31 December 2005 amounted to BYR 408,903 million and BYR 729,751 million, respectively.

During the year ended 31 December 2006 the Group obtained government debt securities as a contribution to its share capital by the Ministry of Economy in the nominal amount of BYR 250,000 million. Fair value of the securities at the date of issue was equal to their nominal.

During the year ended 31 December 2006 the Group obtained 100% share in PUE “ASB Gorodets” as a contribution to its share capital. Fair value of the securities at the date of contribution was equal to BYR 6,024 million.

During the year ended 31 December 2005 the Group obtained government debt securities as a contribution to its share capital by the Ministry of Economy in the nominal amount of BYR 300,000 million. Fair value of the securities at the date of issue was equal to their nominal.

During the year ended 31 December 2005 the Group capitalized deposits of state funds given to finance housing loans to individuals in the amounts of and BYR 25,879 million, respectively.

On behalf of the Management Board

  
Chairman

  
Chief accountant

The notes on pages 9 to 50 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

# JOINT STOCK COMPANY “SAVINGS BANK “BELARUSBANK”

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (in Belarusian Roubles and in millions, unless otherwise stated)

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### 1. ORGANISATION

Joint Stock Company “Savings Bank “Belarusbank” (“the Bank”) was established on 27 October 1995, as a result of a merger of the State Savings Bank of the Republic of Belarus and the Joint-Stock Commercial Bank “Belarusbank”. The Bank is incorporated in the Republic of Belarus as Joint Stock Company “Savings Bank “Belarusbank” at the following legal address: 32 Myasnikova street, Minsk, Belarus.

The Bank’s activities are regulated by the National Bank of the Republic of Belarus (the “National Bank”) in accordance with the General license of the National Bank of the Republic of Belarus for banking activities, License for attraction of deposits from private persons, General license for foreign exchange operations, and other licenses.

The Bank’s primary areas of operation include attracting term and current deposits, granting loans on its behalf from its own and attracted funds, foreign exchange transactions, payment settlements and securities trading.

Most of banking operations are conducted in accordance with the directions and instructions of the Government of the Republic of Belarus, including provision of housing loans to individuals.

A four-tier structure of the Bank includes the Head Office located in Minsk; 6 regional offices, 106 branches, 33 banking service centers and 1,795 outlets. The Bank also has 3 representative offices in Russian Federation, Poland and Germany.

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

Name	Country of operation	The Bank ownership interest/voting rights, %		Type of operation
		2006	2005	
JSC “Banking Processing Centre”	Belarus	50.5%	50.5%	Processing of plastic card operations
PUE “ASB Leasing”	Belarus	100%	100%	Finance leases
PUE “ASB Gorodets”	Belarus	100%	-	Agriculture
PUE “ASB Teterino”	Belarus	100%	100%	Agriculture
PUE “ASB Pervaya Vesna”	Belarus	100%	100%	Agriculture
PUE “ASB Stalbovshchina”	Belarus	100%	100%	Agriculture
PUE “ASB Sanatoriy Sputnik”	Belarus	100%	100%	Recreation facility

As of 31 December 2006 and 2005, the following shareholders owned the issued shares:

<b>Shareholder</b>	<b>2006</b> %	<b>2005</b> %
Ministry of Economy of the Republic of Belarus	77.3	73.2
Minsk City Executive Committee	7.7	9.4
Brest Region Executive Committee	2.8	3.4
Minsk Region Executive Committee	2.6	3.1
Gomel Region Executive Committee	2.5	3.1
Vitebsk Region Executive Committee	2.3	2.9
Grodno Region Executive Committee	1.9	2.4
Mogilev Region Executive Committee	1.8	2.2
Shklov District Executive Committee	0.9	-
Other	0.2	0.3
	<hr/>	<hr/>
Total	<u>100</u>	<u>100</u>

These consolidated financial statements were authorized for issue by the management on 20 April 2007.

## **2. BASIS OF PRESENTATION**

### **Accounting basis**

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

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

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

## **Key assumptions**

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

## **Functional currency**

The functional currency of these consolidated financial statements is the Belarusian Rouble (“BYR”).

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the Group’s interest in the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The minority interest is stated at the minority’s proportion of the fair values of the net assets recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders’ interests are shown separately in the balance sheet and income statement, respectively. For a business combination involving entities or business under common control all assets and liabilities of a subsidiary are measured at their carrying values recorded in the stand-alone financial statements of the subsidiary with the difference between the carrying value of the share in net assets of the subsidiary and the cost of acquisition recorded directly in equity attributable to the equity holders of the parent.

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

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

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

## **Goodwill**

Goodwill arising on acquisition represents the excess of the fair value of consideration given at acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition.

The Group tests goodwill for impairment at least annually.

## **Investments in associated companies**

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

If accounting for the results and assets and liabilities of associates using the equity method of accounting does not significantly influence these consolidated financial statements, such investments in associated companies are accounted for at fair value. If such value cannot be estimated, investments are accounted for at cost. Management periodically assesses recoverability of the carrying values of such investments and provides valuation allowances, if necessary. Such investments are accounted for as securities available for sale.

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

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

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

## **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Belarus with original maturity within 90 days, due from banks in countries included in the Organization for Economic Co-operation and Development ("OECD") with original maturity within 90 days, except for margin deposits for operations with plastic cards and government debt securities denominated in Belarusian roubles carried at fair value through profit or loss, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of the Republic of Belarus is not included as a cash equivalent due to restrictions on its availability.

## **Precious metals**

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

### **Due from banks**

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

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

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

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

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

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 to customers**

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

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest 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 impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group including sale of all available collateral. The decision on writing off bad debt against allowance for impairment losses should be approved by Credit Committee and the Board.

## **Allowance for impairment losses**

The Group establishes an allowance for losses on financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at 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. Allowances are made as a result of an individual appraisal of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment is charged to the consolidated income statement and the total of the allowance for impairment is deducted in arriving at assets as shown in balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred, include information about the debtors' or issuers' 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 Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

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.

## **Finance leases**

Financial leases are leases that transfer substantially all the risks and rewards incident 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 classified as finance lease if:

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

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

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

## **Operating leases**

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

The Group as lessor recognizes lease payments under operating leases as income on a straight-line basis over the lease term and includes it operating income.

The Group as lessee recognizes lease payments under operating leases as expenses on a straight-line basis over the lease term and includes them into operating expenses.

## **Securities held to maturity**

Securities held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less allowance for impairment, if any. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

## Securities available for sale

Securities available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the consolidated income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the consolidated income statement. The Group uses quoted market prices to determine the fair value for the Group's securities available for sale. Accrued interest receivable is included in the market price of the securities. If such quotes do not exist, management estimation is used. Dividends received are included in other income in the consolidated income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the consolidated income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the consolidated income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the consolidated income statement.

## Property, equipment and intangible assets

Property, equipment and intangible assets, acquired after 1 January 2006 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property, equipment and intangible assets, acquired before 1 January 2006 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and intangible assets is charged on the carrying value of property, equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings	1 - 20%
Computers	10 - 33%
Transport	10 - 14%
Office equipment	8 - 25%
Intangible assets	10 - 50%

Depreciation on assets under construction and those not placed in service commences from the date the assets are placed in service for their intended use.

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

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

An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

## **Taxation**

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

The current taxes expense is based on taxable profit for the year and is computed in accordance with the legislation of the Republic of Belarus. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally 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 tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

The Republic of Belarus also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

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

Customer and bank deposits are initially recognized at fair value. Subsequently amounts due at fixed maturities are stated at amortized cost and any difference between carrying and redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities

### **Debt securities issued**

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

## **Provisions**

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

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

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

## **Share capital**

Contributions to share capital, made before 1 January 2006 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2006 are recognized at cost. Non-cash contributions are included into the share capital at fair value of the contributed assets. Gains and losses on sales of treasury stock are charged or credited to share premium. External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Treasury stock is recorded at restated cost. Preferred shares that are non-redeemable are classified as equity.

Dividends on ordinary shares and other distributions from retained earnings 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 Republic of Belarus legislation, the Group 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 the state. The Group does not have any pension arrangements separate from the State pension system of the Republic of Belarus. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

## **Recognition of income and expense**

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

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

Interest income also includes income earned on investments in securities. Other income is credited to the consolidated income statement when the related transactions are completed.

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

### **Foreign currency translation**

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

### **Rates of exchange**

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

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

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

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

### **Accounting for the effects of hyperinflation**

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

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

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

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

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

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations had the following impact on the financial statements of the Group.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") effective for accounting periods beginning on 1 January 2006 imposed additional restrictions on designation of financial assets or financial liabilities as at fair value through profit or loss at initial recognition. The Group has de-designated all of its financial assets previously designated at fair value through profit or loss since they do not qualify for such designation in accordance with amended IAS 39. These financial assets are now classified as investments available for sale and accounted for as such (Note 16). De-designation was made retrospectively as required by transitional provisions of IAS 39.

The adoption of revised IAS 39 had the following effect on the Group's consolidated financial statements:

<b>Financial statements item</b>	<b>Amount as per previous report</b>	<b>Amount of restatement</b>	<b>Amount after restatement</b>
Trading securities	170,005	(170,005)	-
Securities available for sale	438,804	170,005	608,809

### **Adoption of new standards**

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

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

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

## **4. PRIOR PERIOD ADJUSTMENTS AND RECLASSIFICATIONS**

### **Prior period adjustments**

The comparative consolidated financial statements have been restated to recognize errors identified by management. In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" the restatement was done retrospectively. The summary of the restatements is as follows:

- a) In accordance with the Decree of the President of the Republic of Belarus #625 dated 29 December 2004 and effective 1 January 2005, the interest rates on certain portion of non-market housing loans issued by the Group to individuals were reduced. The Group was not able to estimate the respective amount of adjustment to the carrying value of these loans as of 31 December 2005 and 2004 and the effect of such adjustment on the income statements for the years then ended.

In 2006 the Group has estimated the amount of adjustments to the carrying value of non-market housing loans as of 31 December 2005 and 2004 and the effect of such adjustments on the income statement for the year ended 31 December 2005 and recognized them in these consolidated financial statements.

- b) The Group has also identified cut-off error on cash kept in ATMs and non-accrual of annual bonus and the related social tax liabilities.

### Other restatements

As of 31 December 2006 the Group has decided that due to significant growth of subsidiaries' assets and due to increase in number of subsidiaries, non-consolidation of subsidiaries would affect the consolidated financial statements for the year ended 31 December 2006 significantly. The Group has decided to prepare consolidated financial statements of the Bank and its subsidiaries. The comparative financial statements were restated for the effect of consolidation of previously non-consolidated subsidiaries.

The effect of the prior period adjustments and other restatements made to the financial statements as of 31 December 2005 and for the year then ended is as follows:

Financial statements item	Amount as per previous report and after application of revised IAS 39	Discounting of loans to individuals	Consolidation of subsidiaries	Other restatements	Amount as per current report
Interest income	734,722	13,758	(686)	-	747,794
Loss on initial recognition of financial instruments issued at non-market terms, net	(30,868)	(936)	-	-	(31,804)
Gain on early repayment of loans issued at non-market terms	22,462	(4,937)	-	-	17,525
Net gain on securities	908	-	58	-	966
Fees and commission income	233,386	-	3,398	-	236,784
Other income	18,886	-	5,659	-	24,545
Operating expenses	(423,760)	-	(3,548)	(10,017)	(437,325)
Recovery of provision/(provision) for impairment losses on other assets and securities available for sale	(1,810)	-	1,250	-	(560)
Loss on net monetary position due to inflation effect	(23,685)	4,860	(87)	-	(18,912)
Income taxes expense	(94,550)	-	(1,005)	-	(95,555)
Cash, balances with the National Bank and precious metals	1,023,643	-	-	(31,238)	992,405
Due from banks	122,103	-	2,521	-	124,624
Loans to customers	5,606,751	(52,870)	(11,356)	-	5,542,525
Securities available for sale	608,809	-	(14,052)	-	594,757
Property, equipment and intangible assets	321,266	-	28,137	-	349,403
Other assets	64,914	-	12,386	-	77,300
Due to banks	476,730	-	1,437	-	478,167
Customer accounts	6,317,316	-	(426)	(31,238)	6,285,652
Other liabilities	42,159	-	4,885	10,017	57,061
Dividends declared and paid	10	-	225	-	235

## Reclassifications

Certain reclassifications have been made to the consolidated cash flow statement for the year ended 31 December 2005 to conform to the presentation for the year ended 31 December 2006 as current year presentation provides better view of the cash flows of the Group.

The amount of deposit in the National bank of the Republic of Belarus in excess of daily minimum deposit requirement was included into the cash and cash equivalent. The effect of foreign exchange rates changes on cash and cash equivalents and monetary items denominated in foreign currencies was separately disclosed; after reclassification of trading securities to securities available for sale due to application of revised IAS 39 the former were excluded from cash equivalents; effect of cut-off error on balances in ATMs on cash equivalents was also considered:

<b>Financial statements line</b>	<b>As previously reported</b>	<b>Amount of restatements and reclassifications</b>	<b>As restated</b>
Cash and cash equivalents at 31 December 2004	430,550	17,693	448,243
Cash and cash equivalents at 31 December 2005	819,816	(138,465)	681,351
Net cash inflow from operating activities for the year ended 31 December 2005	174,487	38,324	212,811
Net cash inflow/(outflow) from investing activities for the year ended 31 December 2005	124,667	(192,581)	(67,914)
Net cash inflow from financing activities for the year ended 31 December 2005	124,891	(20)	124,871
Effect of changes in exchange rates on cash and cash equivalents	-	(1,881)	(1,881)

## 5. GROUP REORGANIZATION

On 4 April 2006 the Bank acquired 100% share in PUE "ASB Gorodets". Acquisition was conducted through the issue of shares by the Bank and their exchange on shares of PUE "ASB Gorodets". The Bank issued 12,348,847 ordinary shares with par value of BYR 1,000 each. The amount of contribution to the share capital was recorded in the amount of fair value of net assets of PUE "ASB Gorodets" as of the date of acquisition.

The net assets of PUE "ASB Gorodets" as of the date of this acquisition were as follows:

Cash and cash equivalents	2
Securities available for sale	21
Property, equipment and intangible assets	8,555
Other assets	1,798
Due to banks	(2,482)
Other liabilities	(1,870)
	<hr/>
Share of net assets acquired	100%
Value of net assets acquired	6,024

On 29 December 2005 the Bank acquired 100% share in PUE “ASB Teterino”.

The net assets of PUE “ASB Teterino” as of the date of this acquisition were as follows:

Property, equipment and intangible assets	4,122
Other assets	2,271
Due to banks	(2,335)
Other liabilities	<u>(2,709)</u>
Share of net assets acquired	100%
Value of net assets acquired	1,349
Negative goodwill	<u>(352)</u>
<b>Total consideration, satisfied by cash</b>	<u><u>997</u></u>
Net cash outflow arising on acquisition:	997
Cash consideration paid	997
Cash and cash equivalents acquired	<u>-</u>

In accordance with the Decree of the President of the Republic of Belarus #257 dated 7 June 2005 and the Council of Ministers regulation # 687 dated 24 June 2005 on 13 July 2005 the Group acquired 100% of shares of JSC “Minskcomplexbank”. The acquisition was structured as a share exchange transaction. This resulted in liquidation of JSC “Minskcomplexbank” as a corporate entity, its assets and liabilities were recognized in the Group’s balance sheet. At the date of acquisition JSC “Minskcomplexbank” did not carry out operating activities and had negative net assets in the amount of BYR 19,926 million.

The net assets of JSC “Minskcomplexbank” as of the date of this acquisition were as follows:

Cash, balances with the National Bank and precious metals	78
Due from banks	265
Loans to customers	5,256
Securities available for sale	1,137
Property, equipment and intangible assets	7,605
Other assets	279
Due to banks	(25,116)
Customer accounts	(2,117)
Debt securities issued	(170)
Other liabilities	<u>(7,143)</u>
Share of net assets acquired	100%
Value of net assets acquired	(19,926)

## 6. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
<b>Interest income</b>		
Interest on loans to customers	865,197	683,868
Interest on debt securities	73,049	55,198
Interest on due from banks	7,311	7,733
Other interest income	1,686	995
	<u>947,243</u>	<u>747,794</u>
<b>Interest expense</b>		
Interest on customer accounts	487,220	374,840
Interest on due to banks	71,882	31,025
Interest on debt securities issued	5,639	3,548
Other interest expense	24	12
	<u>564,765</u>	<u>409,425</u>

## 7. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Due from banks	Loans to customers	Total
As of 31 December 2004	4,012	135,267	139,279
(Recovery of provision)/provision	(1,039)	14,965	13,926
Write-off of assets	(2,822)	(2,185)	(5,007)
Gain on net monetary position	(151)	(10,502)	(10,653)
	<u>-</u>	<u>-</u>	<u>-</u>
As of 31 December 2005	-	137,545	137,545
Provision	-	63,296	63,296
Write-off of assets	-	(62)	(62)
	<u>-</u>	<u>(62)</u>	<u>(62)</u>
As of 31 December 2006	<u>-</u>	<u>200,779</u>	<u>200,779</u>

Movements in allowance for impairment losses on other assets and securities available for sale were as follows:

	Securities available for sale	Other assets	Total
As of 31 December 2004	162	-	162
Provision	122	438	560
Acquisition of subsidiary bank	-	2,031	2,031
Gain on net monetary position	(50)	(17)	(67)
	<u>134</u>	<u>2,442</u>	<u>2,576</u>
As of 31 December 2005	234	2,452	2,686
Provision	-	424	424
	<u>234</u>	<u>2,876</u>	<u>3,110</u>
As of 31 December 2006	<u>234</u>	<u>2,876</u>	<u>3,110</u>

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

Movements in provision for losses on off-balance sheet commitments were as follows:

	<b>Off-balance sheet commitments</b>
As of 31 December 2004	1,157
Provision	1,067
Acquisition of subsidiary bank	1,400
Gain on net monetary position	<u>(126)</u>
As of 31 December 2005	3,498
Provision	<u>26,626</u>
As of 31 December 2006	<u><u>30,124</u></u>

Provision for losses on off-balance sheet commitments are recorded in other liabilities.

## 8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Dealing, net	85,889	66,230
Translation differences, net	<u>3,644</u>	<u>866</u>
<b>Total net gain on foreign exchange operations</b>	<u><u>89,533</u></u>	<u><u>67,096</u></u>

## 9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
<b>Fee and commission income:</b>		
Customer service	185,324	175,682
Credit cards operations	77,729	18,823
Encashment operations	17,144	11,756
Off-balance sheet transactions	11,024	11,653
Foreign currency transactions	10,160	17,204
Other transactions	<u>7,108</u>	<u>1,666</u>
<b>Total fee and commission income</b>	<u><u>308,489</u></u>	<u><u>236,784</u></u>
<b>Fee and commission expense:</b>		
Transactions with banks	15,147	14,642
Credit cards operations	10,110	13,204
Encashment operations	5,231	3,317
Foreign currency transactions	1,063	1,504
Other transactions	<u>4,344</u>	<u>1,360</u>
<b>Total fee and commission expense</b>	<u><u>35,895</u></u>	<u><u>34,027</u></u>

## 10. OTHER INCOME

Other income comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Revenue from agricultural activities	10,272	2,962
Penalties received	3,637	3,295
Gain from sale of property, equipment and inventory	3,540	1,287
Income from recovery of assets previously written off	765	11,074
Dividend income	108	40
Other	5,305	5,887
	<hr/>	<hr/>
<b>Total other income</b>	<b>23,627</b>	<b>24,545</b>

## 11. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Salary, bonuses and other employee benefits	249,493	182,156
Social security contributions	79,106	57,251
Depreciation and amortization	51,285	53,707
Taxes, other than income taxes	47,302	44,495
Property and equipment maintenance	23,703	20,181
Operating leases	17,586	21,655
Security expenses	6,533	7,121
Transportation expenses	5,595	5,349
Communications	4,390	4,457
Professional services fees	3,638	5,860
Administrative expenses	2,298	5,514
Loss due to a subsidiary bank acquisition	-	10,663
Other expenses	43,250	18,916
	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>534,179</b>	<b>437,325</b>

As discussed in Note 5 on 13 July 2005 the Group acquired 100% of shares of JSC “Minskcomplexbank”. Amount of goodwill arising from acquisition was calculated as the difference between the estimated fair value of the Group’s shares transferred at acquisition and the fair value of the net assets of JSC “Minskcomplexbank” at the date of acquisition. The Group has recognized impairment of goodwill as no future economic benefits are expected as a result of the acquisition.

Loss due to a subsidiary bank acquisition represents goodwill impairment less income recognized at initial recognition of the National Bank’s loan granted to the Group at the interest rate of 0.01% for compensation of losses incurred at acquisition.

## 12. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2006 and 2005, tax rate for Belarusian banks was 24% and 30%, respectively, for the republican tax and 3% and 4%, respectively, for the municipal tax. The rates were charged successively. Therefore, in 2006 and 2005 the combined rate was 26.28% and 32.8%, respectively.

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2006 and 2005 comprise:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Deductible temporary differences:		
Allowance for impairment losses on loans to banks and customers	89,104	57,479
Loans to customers	61,822	27,129
Provision for off-balance sheet commitments	30,124	3,498
Materials and deferred expenses written off	29,350	37,475
Accrued bonus to employees	13,451	10,017
Property and equipment	1,817	-
Other	7,672	1,057
	<hr/>	<hr/>
Total deductible temporary differences	233,340	136,655
Taxable temporary differences:		
Accrued interest income	(45,885)	(43,869)
Deposits from the National Bank	(10,728)	(7,834)
Property and equipment	-	(18,434)
Other	(274)	(2,257)
	<hr/>	<hr/>
Total taxable temporary differences	(56,887)	(72,394)
Net deductible temporary differences	<hr/>	<hr/>
	176,453	64,261
Net deferred tax assets at the statutory rate of 26.28%	46,372	16,888
Less valuation allowance	<hr/>	<hr/>
	(46,372)	(16,888)
Net deferred tax assets	<hr/> <hr/>	<hr/> <hr/>
	-	-

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

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
Profit before income taxes and after loss on net monetary position	<u>140,196</u>	<u>147,664</u>
Statutory tax rate	26.28%	32.80%
Income taxes at statutory rate	36,844	48,434
Tax effect of permanent differences	(13,512)	42,280
Change in valuation allowances	<u>29,484</u>	<u>4,841</u>
<b>Income taxes expense</b>	<u><u>52,816</u></u>	<u><u>95,555</u></u>

Changes in valuation allowance in 2006 and 2005 were as follows:

	<b>Year ended 31 December 2006</b>	<b>Year ended 31 December 2005</b>
At the beginning of the year	16,888	13,208
Change in valuation allowance	29,484	4,841
Gain on net monetary position	<u>-</u>	<u>(1,161)</u>
At the end of the year	<u><u>46,372</u></u>	<u><u>16,888</u></u>

### 13. CASH, BALANCES WITH THE NATIONAL BANK AND PRECIOUS METALS

Cash, balances with the National Bank and precious metals comprise:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Cash on hand	235,562	166,735
Balances on current accounts in the National Bank	1,242	38
Time deposits with the National Bank	183,161	436,806
Obligatory reserve deposits with the National Bank	575,642	387,682
Precious metals	<u>1,821</u>	<u>1,144</u>
<b>Total cash and balances with the National Bank</b>	<u><u>997,428</u></u>	<u><u>992,405</u></u>

Included in balances with the National Bank is accrued interest in the amount of BYR 36 million and BYR 86 million as of 31 December 2006 and 2005, respectively.

The Group is required to maintain the minimum reserve balance with the National Bank at all times.

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

	<b>31 December 2006</b>	<b>31 December 2005</b>
Cash and balances with the National Bank	997,428	992,405
Due from banks in OECD countries	32,704	14,994
	<u>1,030,132</u>	<u>1,007,399</u>
Less minimum reserve deposit with the National Bank	(392,861)	(324,904)
Less precious metals	(1,821)	(1,144)
	<u>(1,821)</u>	<u>(1,144)</u>
<b>Total cash and cash equivalents</b>	<u><u>635,450</u></u>	<u><u>681,351</u></u>

#### 14. DUE FROM BANKS

Due from banks comprise:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Loans to banks	89,791	67,895
Correspondent accounts with other banks	73,069	56,729
Loans under reverse repurchase agreements	307	-
	<u>307</u>	<u>-</u>
<b>Total due from banks</b>	<u><u>163,167</u></u>	<u><u>124,624</u></u>

Included in due from banks is accrued interest in the amount of BYR 212 million and BYR 226 million as of 31 December 2006 and 2005, respectively.

As of 31 December 2006 and 2005 the maximum credit risk exposure on due from banks amounted to BYR 163,167 million and BYR 124,624 million, respectively.

As of 31 December 2006 and 2005, the advances to banks included amounts of BYR 1,858 million and BYR 2,125 million, respectively, placed as security against letters of credit issued by the Group.

As of 31 December 2006 and 2005 correspondent accounts with other banks included blocked amounts in JSC "Belvnesheconombank" amounting to BYR 1,023 million and BYR 1,010 million, respectively. Blocked balances represent funds received from the Vnesheconombank of the USSR under agreements between the Russian Federation and the Republic of Belarus in June 1999. As stipulated in the agreements, these funds are subject to certain restrictions and can only be used to offset amounts due from certain Group's customers relating to settlements with the State budget for the supply of electrical power, heating and gas.

As of 31 December 2006 the Group included in loans and advances to banks loans under reverse repurchase agreements amounting to BYR 307 million with maturity within two months. Securities purchased under reverse repurchase agreement were simultaneously sold under repurchase agreement. The fair value of the securities purchased under such agreements was BYR 312 million.

## 15. LOANS TO CUSTOMERS

Loans to customers comprise:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Originated loans	8,930,357	5,426,197
Net investment in finance leases	334,555	253,873
	<u>9,264,912</u>	<u>5,680,070</u>
Less allowance for impairment losses	(200,779)	(137,545)
<b>Total loans to customers, net</b>	<u><u>9,064,133</u></u>	<u><u>5,542,525</u></u>

As of 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to BYR 40,058 million and BYR 40,122 million, respectively.

As of 31 December 2006 and 2005 a maximum credit risk exposure of loans to customers amounted to BYR 9,064,133 million and BYR 5,542,525 million, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 7.

	<b>31 December 2006</b>	<b>31 December 2005</b>
Loans collateralized by equipment, real estate and goods in turnover	3,751,841	1,756,583
Loans collateralized by guarantees of local authorities	1,402,352	1,394,352
Loans collateralized by liens of individuals over real estate under construction	2,168,984	1,392,858
Loans, collateralized by individuals' guarantees	1,434,735	793,065
Loans collateralized by other assets	174,923	148,021
Loans collateralized by corporate guarantees	245,852	115,242
Loans collateralized by cash	20,811	953
Unsecured loans	65,414	78,996
	<u>9,264,912</u>	<u>5,680,070</u>
Less allowance for impairment losses	(200,779)	(137,545)
<b>Total loans to customers, net</b>	<u><u>9,064,133</u></u>	<u><u>5,542,525</u></u>

As of 31 December 2006 and 2005 the Group had originated loans to 9 and 2 borrowers, respectively, which individually exceeded 10% of the Group's equity at the respective dates. Total amount of such loans amounted to BYR 1,848,201 millions and BYR 348,748 millions, respectively.

<b>Analysis by sector</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Individuals	3,760,237	2,265,862
Manufacturing	2,137,663	1,391,336
Wholesale and retailing	300,577	272,468
Construction	157,995	125,124
Other	2,908,440	1,625,280
	<u>9,264,912</u>	<u>5,680,070</u>
Less allowance for impairment losses	(200,779)	(137,545)
<b>Total loans to customers, net</b>	<u><u>9,064,133</u></u>	<u><u>5,542,525</u></u>

Loans to individuals comprise the following products:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Mortgage loans	2,378,389	1,409,400
Consumer loans	1,381,848	856,462
	<u>3,760,237</u>	<u>2,265,862</u>
Less allowance for impairment losses	(23,943)	(23,315)
<b>Total loans to individuals, net</b>	<u><u>3,736,294</u></u>	<u><u>2,242,547</u></u>

As of 31 December 2006 and 2005 the loan portfolio of the Group included long-term housing loans issued to individuals on other than market terms. The loans were issued with maturities of up to 40 years, and at fixed interest rates varying from 3% to 10%. Those loans were issued under the Government housing lending program. Partly these loans were financed from the state funds, partly from the Group's own funds (i.e. without refinancing).

Where the Group issued loans from its own funds, it received additional interest income reimbursement from state authorities so that the effective interest rate on issued loans equaled to current market interest rate on loans to individuals.

Where the loans were refinanced from governmental funds the margin on the refinanced funds comprised 3% over funding arrangements. A part of relevant liabilities due to the Ministry of Finance, the National Bank and other state authorities was later capitalized into the share capital of the Group.

As of 31 December 2006 and 2005 the nominal amount of these loans comprised BYR 540,800 million and BYR 550,044 million, respectively. As disclosed in Note 3 these loans are initially measured at estimated fair value. Subsequently they are measured at amortized cost using the effective interest method. The carrying amount of these loans as of 31 December 2006 and 2005 were BYR 182,754 million and BYR 148,646 million, respectively.

Actual dates of repayment of these loans can differ from those anticipated at their initial recognition, the resulting gain is recorded in the consolidated income statement as gain on early repayment of loans issued at non-market terms.

On 29 December 2004 the Decree of the President of the Republic of Belarus # 625 ("the Decree") was passed and came into force on 1 January 2005. In accordance with the Decree interest rates on certain loans issued to individuals for real estate construction at other than market terms were reduced from 10% and 5% to 5% and 3%, respectively. The effect of the reduction of interest rates was accounted for in these consolidated financial statements as decrease in amortized cost of loans mentioned above with recognition of effect in the consolidated income statement for the period in which the Decree was passed.

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

	<b>31 December 2006</b>	<b>31 December 2005</b>
Not later than one year	167,262	132,500
From one year to five years	226,051	168,924
More than 5 years	<u>13,009</u>	<u>8,329</u>
Minimum lease payments	406,322	309,753
Less unearned finance income	<u>(71,767)</u>	<u>(55,880)</u>
Net investment in finance lease	<u><u>334,555</u></u>	<u><u>253,873</u></u>
Current portion	129,165	107,762
Long-term portion	<u>205,390</u>	<u>146,111</u>
Net investment in finance lease	<u><u>334,555</u></u>	<u><u>253,873</u></u>

## 16. SECURITIES AVAILABLE FOR SALE

Securities available for sale comprise:

<b>Securities available for sale</b>	<b>Annual interest rate</b>	<b>31 December 2006</b>	<b>Annual interest rate</b>	<b>31 December 2005</b>
Long-term government bonds (GDO)	8.13%-10.51%	683,718	9%-10.9%	462,415
Short-term government bonds (GKO)	9%-11%	302,890	10.7%-15.4%	96,270
Shares		2,679		1,620
Short-terms bonds of the National Bank (KO)		-	10.6%	34,420
Promissory notes of Belarusian banks		-	15.6%-16.4%	133
Other debt securities	1.2%-1.8%	<u>130</u>	1.2%-1.8%	<u>133</u>
		989,417		594,991
Less allowance for impairment losses		<u>(234)</u>		<u>(234)</u>
<b>Total securities available for sale</b>		<u><u>989,183</u></u>		<u><u>594,757</u></u>

GKO are government securities with short-term maturities that are sold at a discount to face value by the Ministry of Finance of the Republic of Belarus.

GDO are government securities with long-term maturities that are sold at a discount to face value by the Ministry of Finance of the Republic of Belarus.

As of 31 December 2006 and 2005 included in securities available for sale were government securities sold under repurchase agreements with other bank at fair value amounting to BYR 3,117 million and BYR 7,988 million, respectively (Note 20). All the repurchase agreements have maturities within one month.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 7.

## 17. SECURITIES HELD TO MATURITY

Securities held to maturity comprise:

Securities held to maturity	Annual interest rate	31 December 2006	Annual interest rate	31 December 2005
Government bonds in USD and EUR (GO)	7.5%-9%	100,244	7.5%-9%	132,115
Bonds of Ministry of Finance of Russian Federation	3%	<u>1,104</u>	3%	<u>2,076</u>
<b>Total securities held to maturity</b>		<u><u>101,348</u></u>		<u><u>134,191</u></u>

## 18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Computers	Transport	Office and other equipment	Construction in progress	Intangible assets	Total
<b>At cost, adjusted for inflation</b>							
31 December 2004	211,205	92,581	31,295	153,621	6,941	7,991	503,634
Additions	15,667	10,790	4,872	32,023	12,044	294	75,690
Additions due to acquisition of subsidiaries	12,008	1,082	530	4,686	-	-	18,306
Disposals/transfers from construction in progress	<u>(2,487)</u>	<u>(5,675)</u>	<u>(2,883)</u>	<u>(2,965)</u>	<u>(325)</u>	<u>(291)</u>	<u>(14,626)</u>
31 December 2005	236,393	98,778	33,814	187,365	18,660	7,994	583,004
Additions	57,266	12,828	5,010	43,201	14,064	12,095	144,464
Additions due to acquisition of subsidiaries	9,618	-	99	2,678	1,340	-	13,735
Disposals/transfers from construction in progress	<u>(2,545)</u>	<u>(6,337)</u>	<u>(2,391)</u>	<u>(3,603)</u>	<u>(10,871)</u>	<u>(618)</u>	<u>(26,365)</u>
31 December 2006	<u>300,732</u>	<u>105,269</u>	<u>36,532</u>	<u>229,641</u>	<u>23,193</u>	<u>19,471</u>	<u>714,838</u>
<b>Accumulated depreciation</b>							
31 December 2004	27,206	64,610	20,664	65,640	-	6,448	184,568
Charge for the period	4,125	17,333	4,824	27,265	-	160	53,707
Additions due to acquisition of subsidiaries	3,357	951	394	1,868	-	9	6,579
Disposals	<u>(247)</u>	<u>(5,545)</u>	<u>(2,699)</u>	<u>(2,491)</u>	<u>-</u>	<u>(271)</u>	<u>(11,253)</u>
31 December 2005	34,441	77,349	23,183	92,282	-	6,346	233,601
Charge for the period	6,592	12,639	4,398	27,182	-	474	51,285
Additions due to acquisition of subsidiaries	3,847	-	50	1,283	-	-	5,180
Disposals	<u>(492)</u>	<u>(5,805)</u>	<u>(2,197)</u>	<u>(3,013)</u>	<u>-</u>	<u>(579)</u>	<u>(12,086)</u>
31 December 2006	<u>44,388</u>	<u>84,183</u>	<u>25,434</u>	<u>117,734</u>	<u>-</u>	<u>6,241</u>	<u>277,980</u>
<b>Net book value</b>							
31 December 2006	<u><u>256,344</u></u>	<u><u>21,086</u></u>	<u><u>11,098</u></u>	<u><u>111,907</u></u>	<u><u>23,193</u></u>	<u><u>13,230</u></u>	<u><u>436,858</u></u>
<b>Net book value</b>							
31 December 2005	<u><u>201,952</u></u>	<u><u>21,429</u></u>	<u><u>10,631</u></u>	<u><u>95,083</u></u>	<u><u>18,660</u></u>	<u><u>1,648</u></u>	<u><u>349,403</u></u>

## 19. OTHER ASSETS

Other assets comprise:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Materials	33,171	19,254
Taxes prepaid, other than income taxes	26,381	29,245
Settlements on capital investments	9,035	7,075
Other debtors	6,457	3,803
Prepaid expenses and receivables on other transactions	5,017	7,923
Tangible assets, purchased for transfer to finance lease	3,979	5,894
Income taxes prepaid	1,517	-
Collateral assets received for debt settlement	403	653
Fair value of swap foreign currency transactions	-	84
Other	12,222	5,821
	<u>98,182</u>	<u>79,752</u>
Less allowance for impairment losses	<u>(2,876)</u>	<u>(2,452)</u>
<b>Total other assets</b>	<u><u>95,306</u></u>	<u><u>77,300</u></u>

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 7.

## 20. DUE TO BANKS

Due to banks comprise:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Time deposits from commercial banks	969,308	296,625
Deposits from the National Bank	760,573	136,283
Correspondent accounts and demand deposits from commercial banks	26,994	27,349
Correspondent account of the National Bank	17,802	9,908
Loans under repurchase agreements	3,116	8,002
	<u>1,777,793</u>	<u>478,167</u>
<b>Total due to banks</b>	<u><u>1,777,793</u></u>	<u><u>478,167</u></u>

As of 31 December 2006 and 2005 accrued interest expenses included in due to banks amounted to BYR 7,284 million and BYR 2,358 million, respectively.

As of 31 December 2006 and 2005 a significant portion of time deposits from commercial banks amounting to BYR 325,717 million and BYR 137,489 million, respectively, were due to two and one counterparties, respectively.

As of 31 December 2006 and 2005 included in due to banks were loans received under repurchase agreements with maturities within two and one months, respectively.

Fair value of assets pledged and carrying value of loans under repurchase agreements as of 31 December 2006 and 2005 are presented as follows:

	31 December 2006		31 December 2005	
	Fair value of collateral	Carrying value of loans	Fair value of collateral	Carrying value of loans
Short-term government bonds (Note 16)	3,117	3,116	7,988	7,998

## 21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2006	31 December 2005
Repayable on demand	4,453,670	2,467,879
Time deposits	4,165,453	3,817,773
<b>Total customer accounts</b>	<b>8,619,123</b>	<b>6,285,652</b>

As of 31 December 2006 and 2005 accrued interest expenses included in customers accounts amounted to BYR 21,803 million and BYR 15,907 million, respectively.

As of 31 December 2006 and 2005 customer accounts amounted to BYR 141,805 million and BYR 18,174 million, respectively, were held as security against letters of credit issued and other transaction related contingent obligations.

As of 31 December 2006 and 2005 the customer accounts in the amounts of BYR 2,380,408 million (27.6%) and BYR 1,991,822 million (31.7%), respectively, were due to seven customers, which represents significant concentration.

## 22. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Annual interest rate	31 December 2006	Annual interest rate	31 December 2005
Bonds issued by the Group	6%-11.5%	72,980	6%-12%	48,050
Savings and deposit certificates, issued by the Group	4%-14%	8,381	3%-12.5%	9,111
Interest bearing promissory notes	3%-9%	305	6%-15%	1,445
Non-interest bearing promissory notes		-		1,844
<b>Total debt securities issued</b>		<b>81,666</b>		<b>60,450</b>

As of 31 December 2006 and 2005 accrued interest expense included in debt securities issued amounted to BYR 2,904 million and BYR 1,214 million, respectively.

### 23. OTHER LIABILITIES

Other liabilities are as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Provision for off-balance sheet commitments	30,124	3,498
Payables to suppliers and contractors	18,509	11,534
Settlements on construction in progress	16,872	7,484
Salary payable	9,687	7,243
Taxes payable, other than income taxes	8,106	12,022
Settlements on finance lease transactions	4,103	8,888
Current income taxes liabilities	3,280	5,512
Fair value of swap foreign currency transactions	20	-
Other	5,656	880
<b>Total other liabilities</b>	<u>96,357</u>	<u>57,061</u>

### 24. SHARE CAPITAL

As of 31 December 2006 the share capital authorized, issued and fully paid comprised 1,438,776,849 ordinary shares with par value of BYR 1,000 each and 11,010 preference shares with par value of BYR 1,000 each.

As of 31 December 2005 the share capital authorized, issued and fully paid comprised 1,176,428,002 ordinary shares with par value of BYR 1,000 each and 11,010 preference shares with par value of BYR 1,000 each.

In 2006 and 2005 the shareholders of the Group increased its share capital by BYR 378,322 million and BYR 256,024 million, respectively. Number of shares issued by the Group in 2006 and 2005 was 262,348,847 shares and 410,079,635 shares, respectively.

In the financial statements as of 31 December 2006 and 2005 prepared in accordance with Belarusian legislation, which is different from IFRS, the Group had certain revenue reserves. The Group increased the value of share capital during the year ended 31 December 2005 by capitalization of these statutory reserves. This was presented in the consolidated statement of changes in equity as capitalization of statutory reserves in the amount of BYR 9,078 million.

All ordinary shares are ranked equally and carry one vote.

## 25. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

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

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

As of 31 December 2006 and 2005, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	31 December 2006		31 December 2005	
	Nominal amount	Risk-weighted amount	Nominal amount	Risk-weighted amount
<b>Contingent liabilities and credit commitments</b>				
Guarantees	108,668	108,668	98,302	98,302
Letters of credit	509,526	254,763	193,711	96,856
Letters of credit secured by cash	119,712	-	16,972	-
Commitments on credits and unused credit lines	1,088,545	-	566,292	-
<b>Total contingent liabilities and credit commitments</b>	<u>1,826,451</u>	<u>363,431</u>	<u>875,277</u>	<u>195,158</u>

The Group has recognized a provision of BYR 30,124 million and BYR 3,498 million against commitments under guarantees given and unsecured letters of credit issued as of 31 December 2006 and 2005, respectively.

**Capital commitments** - As of 31 December 2006 and 2005, the Group had commitments for capital expenditures outstanding in the amount of BYR 22,301 million and BYR 6,591 million, respectively.

**Operating leases** - Where the Group is the lessee, the future minimum lease payments under non cancelable operating leases are as follows:

	31 December 2006	31 December 2005
Not later than 1 year	8,167	10,203
Later than 1 year but not later than 5 years	5,319	29,855
Later than 5 years	1,255	-
<b>Total operating leases</b>	<u>14,741</u>	<u>40,058</u>

**Legal proceedings** - From time to time and in the normal course of the business, claims against the Group are received from customers and counterparties. Management is of the opinion that the Group would not suffer any material loss as a result of such claims and accordingly no provision has been made in these consolidated financial statements.

**Pensions and retirement plans** - Employees receive pension benefits from the Republic of Belarus in accordance with the laws and regulations of the country. As of 31 December 2006 and 2005, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## 26. SUBSEQUENT EVENTS

On 28 March 2007 the general shareholders' meeting of the Group was held where dividends on ordinary and preference shares were declared totaling BYR 9,054 million.

On 23 March 2007 the Bank set up a subsidiary PUE "ASB Recreation Centre "Solnechnyy" for the purpose of rendering recreational services.

On 28 February 2007 the Bank set up a subsidiary PUE "ASB Novator" for the purpose of investing in agricultural companies.

## 27. RELATED PARTIES TRANSACTIONS

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as of 31 December 2006 and 2005 with related parties:

	31 December 2006		31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Balances with the National Bank</b>	<b>760,045</b>	<b>760,045</b>	<b>824,526</b>	<b>824,526</b>
<b>Due from banks</b>	<b>71,279</b>	<b>163,167</b>	<b>23,389</b>	<b>124,624</b>
- state entities (under common control of the State)	71,279		23,389	
<b>Loans to customers</b>	<b>4,612,410</b>	<b>9,264,912</b>	<b>2,630,252</b>	<b>5,680,070</b>
- state entities (under common control of the State)	4,603,793		2,624,915	
- key management personnel of the Group	8,617		5,337	
<b>Allowance for impairment losses on loans to customers</b>	<b>105,870</b>	<b>200,779</b>	<b>63,457</b>	<b>137,545</b>
- state entities (under common control of the State)	105,814		63,404	
- key management personnel of the Group	56		53	
<b>Securities available for sale</b>	<b>986,608</b>	<b>989,183</b>	<b>593,239</b>	<b>594,757</b>
- state entities (under common control of the State)	986,608		593,239	
<b>Securities held to maturity</b>	<b>100,244</b>	<b>101,348</b>	<b>132,115</b>	<b>134,191</b>
- state entities (under common control of the State)	100,244		132,115	
<b>Due to banks</b>	<b>981,254</b>	<b>1,777,793</b>	<b>158,219</b>	<b>478,167</b>
- National Bank	778,375		146,191	
- state entities (under common control of the State)	202,879		12,028	
<b>Customer accounts</b>	<b>2,267,512</b>	<b>8,619,123</b>	<b>1,020,165</b>	<b>6,285,652</b>
- state entities (under common control of the State)	2,259,920		1,017,089	
- key management personnel of the Group	7,592		3,076	
<b>Contingent financial liabilities</b>	<b>570,319</b>	<b>737,906</b>	<b>230,588</b>	<b>308,985</b>
- state entities (under common control of the State)	570,319		230,588	
<b>Provision for off-balance sheet commitments</b>	<b>26,175</b>	<b>30,124</b>	<b>1,511</b>	<b>3,498</b>
- state entities (under common control of the State)	26,175		1,511	

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

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Interest income</b>	<b>338,846</b>	<b>947,243</b>	<b>294,123</b>	<b>747,794</b>
- state entities (under common control of the State)	338,164		293,649	
- key management personnel of the Group	682		474	
<b>Interest expense</b>	<b>91,210</b>	<b>564,765</b>	<b>20,940</b>	<b>409,425</b>
- state entities (under common control of the State)	88,253		18,843	
- key management personnel of the Group	2,957		2,097	
<b>Provision for impairment losses on interest bearing assets</b>	<b>42,413</b>	<b>63,296</b>	<b>10,049</b>	<b>13,926</b>
- state entities (under common control of the State)	42,410		10,027	
- key management personnel of the Group	3		22	
<b>Commission income</b>	<b>66,750</b>	<b>308,489</b>	<b>74,805</b>	<b>236,784</b>
- state entities (under common control of the State)	66,750		74,805	
<b>Commission expense</b>	<b>2,253</b>	<b>35,895</b>	<b>2,870</b>	<b>34,027</b>
- state entities (under common control of the State)	2,253		2,870	
<b>Operating expenses</b>	<b>22,858</b>	<b>534,179</b>	<b>17,110</b>	<b>437,325</b>
- state entities (under common control of the State)	7,887		6,684	
- key management personnel of the Group	14,971		10,426	

## 28. 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 Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

	31 December 2006		31 December 2005	
	Carrying value	Fair value	Carrying value	Fair value
Cash, balances with the National				
Bank and precious metals	997,428	997,428	992,405	992,405
Due from banks	163,167	163,167	124,624	124,624
Securities available for sale	989,183	989,183	594,757	594,757
Securities held to maturity	101,348	101,348	134,191	134,191
Due to banks	1,777,793	1,777,793	478,167	478,167
Customer accounts	8,619,123	8,619,123	6,285,652	6,285,652
Debt securities issued	81,666	81,666	60,450	60,450

As of 31 December 2006 and 2005 the carrying value of loans to customers, less allowance for impairment losses, was BYR 9,064,133 million and 5,542,525 million, respectively. Included in these loans were housing loans to individuals issued at non-market terms, which are initially recognized at estimated fair value and subsequently carried at amortized cost.

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.

## 29. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group 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 Group'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 impairment losses:

Estimate	Description of position
0%	Cash and balances with the National Bank
0%	Loans to banks and customers secured by cash, highly liquid securities or guaranteed by the Government
0%	State debt securities denominated in BYR
0%	Letters of credit secured by customers deposits
20%	Loans and advances to banks for up to 1 year and securities issued by banks
50%	Loans to government bodies
50%	Letters of credit not secured by customers deposits
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Loans to customers
100%	Other assets
100%	Guarantees issued and similar commitments

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

Capital amounts and ratios	Actual amount	Amount for capital adequacy purposes	Ratio for capital adequacy purposes	Minimum required ratio
<b>As of 31 December 2006</b>				
Total capital	1,265,301	1,265,301	12.97%	8%
Tier 1 capital	1,265,301	1,265,301	12.97%	4%
<b>As of 31 December 2005</b>				
Total capital	928,201	928,201	16.87%	8%
Tier 1 capital	928,201	928,201	16.87%	4%

### 30. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group exercises centralized risk-management policies, which are prepared in accordance with major indicators of the Group's development, approved for a financial year; Group's budget; operational strategy of the Group; credit, tariff, human resources policies; and investment program of the Group.

Risk-management in the Group has a three-tier structure:

- 1) management boards of the Group;
- 2) committees authorized by the Management Board;
- 3) structural subdivisions of the Bank and its subsidiaries.

The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

#### **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 main principle in the management of liquidity is the superiority of the centralized management of resources. The Head office manages the payment system of the Group and regulates cash flows within the system.

Asset and Liabilities Committee was created with the purpose of adequate management of cash flows. The Committee is authorized to perform operational management of resources and to determine actions aimed at mitigating the liquidity risk.

30-day liquidity risk is managed via preparation of cash flow payment calendar of the Group, which is split into 10-day periods. The calendar is aimed at daily balancing of cash flows in each currency.

Cash flows planning is based on the results of liquidity indicators stress-testing, which is performed quarterly. Modeling of stress scenarios allows to assess the Group's susceptibility to changes in risk factors, to evaluate consequences of such risk factors and to consider ways of mitigating negative consequences of the risk factors.

The forecasted operating liquidity position of the Group is updated on a daily basis as part of the cash flows planning, considering situation on the financial markets and state of correspondent and sub-correspondent accounts of the Group

Based on the above analysis, the Treasury makes payments considering their priority stipulated in the internal regulations. The Treasury performs daily analysis of the acid-test and current liquidity ratios, defines necessary actions for liquidity maintenance, and estimates the possible financial result of the alternative transactions.

The following table presents an analysis of interest rate risk and liquidity risk on consolidated balance sheet.

	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	2006 BYR mln Total
<b>ASSETS</b>								
Balances with the National Bank	184,984	-	-	-	-	-	-	184,984
Due from banks	5,481	9,523	16,415	57,138	307	-	-	88,864
Loans to customers	491,716	824,940	2,383,472	3,442,491	1,791,189	130,325	-	9,064,133
Securities available for sale	26,875	91,204	264,820	436,519	167,277	-	-	986,695
Securities held to maturity	14,062	30,287	56,914	-	85	-	-	101,348
Total interest bearing assets	<u>723,118</u>	<u>955,954</u>	<u>2,721,621</u>	<u>3,936,148</u>	<u>1,958,858</u>	<u>130,325</u>	<u>-</u>	<u>10,426,024</u>
Cash, balances with the National Bank and precious metals	236,802	-	-	-	-	-	575,642	812,444
Loans and advances to banks	74,303	-	-	-	-	-	-	74,303
Securities available for sale	-	-	-	-	-	-	2,488	2,488
Property, equipment and intangible assets	-	-	-	-	-	-	436,858	436,858
Other assets	40,781	2,039	734	4,261	-	6,547	40,944	95,306
<b>TOTAL ASSETS</b>	<u>1,075,004</u>	<u>957,993</u>	<u>2,722,355</u>	<u>3,940,409</u>	<u>1,958,858</u>	<u>136,872</u>	<u>1,055,932</u>	<u>11,847,423</u>
<b>LIABILITIES</b>								
Due to banks	773,645	393,974	346,743	215,943	944	-	-	1,731,249
Customer accounts	515,805	595,223	2,117,584	2,281,883	819	-	-	5,511,314
Debt securities issued	10,075	2,786	33,853	29,630	-	2,419	-	78,763
Total interest bearing liabilities	<u>1,299,525</u>	<u>991,983</u>	<u>2,498,180</u>	<u>2,527,456</u>	<u>1,763</u>	<u>2,419</u>	<u>-</u>	<u>7,321,326</u>
Due to banks	46,544	-	-	-	-	-	-	46,544
Customer accounts	2,953,928	14,365	139,396	120	-	-	-	3,107,809
Debt securities issued	1,201	786	530	-	-	386	-	2,903
Other liabilities	64,919	7,385	11,464	3,770	264	7,721	834	96,357
<b>TOTAL LIABILITIES</b>	<u>4,366,117</u>	<u>1,014,519</u>	<u>2,649,570</u>	<u>2,531,346</u>	<u>2,027</u>	<u>10,526</u>	<u>834</u>	<u>10,574,939</u>
Liquidity gap	<u>(3,291,113)</u>	<u>(56,526)</u>	<u>72,785</u>	<u>1,409,063</u>	<u>1,956,831</u>			
Interest sensitivity gap	<u>(576,407)</u>	<u>(36,029)</u>	<u>223,441</u>	<u>1,408,692</u>	<u>1,957,095</u>			
Cumulative interest sensitivity gap	<u>(576,407)</u>	<u>(612,436)</u>	<u>(388,995)</u>	<u>1,019,697</u>	<u>2,976,792</u>			
Cumulative interest sensitivity gap as a percentage of total assets	<u>(5%)</u>	<u>(5%)</u>	<u>(3%)</u>	<u>9%</u>	<u>25%</u>			

	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 mln Total
<b>ASSETS</b>								
Balances with the National Bank	405,568	-	-	-	-	-	-	405,568
Due from banks	19,978	15,124	29,089	338	-	-	1,345	65,874
Loans to customers	371,167	516,022	1,415,370	2,446,673	673,791	119,502	-	5,542,525
Securities available for sale	56,918	14,268	99,212	227,399	195,656	-	-	593,453
Securities held to maturity	-	10,971	25,654	97,566	-	-	-	134,191
Total interest bearing assets	<u>853,631</u>	<u>556,385</u>	<u>1,569,325</u>	<u>2,771,976</u>	<u>869,447</u>	<u>119,502</u>	<u>1,345</u>	<u>6,741,611</u>
Cash, balances with the National Bank and precious metals	199,155	-	-	-	-	-	387,682	586,837
Due from banks	58,750	-	-	-	-	-	-	58,750
Securities available for sale	-	-	-	-	-	-	1,304	1,304
Property, equipment and intangible assets	-	-	-	-	-	-	349,403	349,403
Other assets	<u>43,420</u>	<u>1,136</u>	<u>2,805</u>	<u>4,309</u>	<u>-</u>	<u>2,349</u>	<u>23,281</u>	<u>77,300</u>
<b>TOTAL ASSETS</b>	<u>1,154,956</u>	<u>557,521</u>	<u>1,572,130</u>	<u>2,776,285</u>	<u>869,447</u>	<u>121,851</u>	<u>763,015</u>	<u>7,815,205</u>
<b>LIABILITIES</b>								
Due to banks	68,413	15,591	134,904	221,582	6,612	110	-	447,212
Customer accounts	833,622	595,195	1,951,280	405,112	902	-	-	3,786,111
Debt securities issued	9,980	6,975	-	41,651	-	-	-	58,606
Total interest bearing liabilities	<u>912,015</u>	<u>617,761</u>	<u>2,086,184</u>	<u>668,345</u>	<u>7,514</u>	<u>110</u>	<u>-</u>	<u>4,291,929</u>
Due to banks	30,955	-	-	-	-	-	-	30,955
Customer accounts	2,499,541	-	-	-	-	-	-	2,499,541
Debt securities issued	1,654	190	-	-	-	-	-	1,844
Other liabilities	<u>31,880</u>	<u>10,908</u>	<u>5,574</u>	<u>8,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,061</u>
<b>TOTAL LIABILITIES</b>	<u>3,476,045</u>	<u>628,859</u>	<u>2,091,758</u>	<u>677,044</u>	<u>7,514</u>	<u>110</u>	<u>-</u>	<u>6,881,330</u>
Liquidity gap	<u>(2,321,089)</u>	<u>(71,338)</u>	<u>(519,628)</u>	<u>2,099,241</u>	<u>861,933</u>			
Interest sensitivity gap	<u>(58,384)</u>	<u>(61,376)</u>	<u>(516,859)</u>	<u>2,103,631</u>	<u>861,933</u>			
Cumulative interest sensitivity gap	<u>(58,384)</u>	<u>(119,760)</u>	<u>(636,619)</u>	<u>1,467,012</u>	<u>2,328,945</u>			
Cumulative interest sensitivity gap as a percentage of total assets	<u>(1%)</u>	<u>(2%)</u>	<u>(8%)</u>	<u>19%</u>	<u>30%</u>			

Practically all assets and liabilities of the Group are floating interest rate bearing.

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

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

## Interest rate risk

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

Interest rate risk estimation and analysis of the risk management results, elaboration of recommendations for implementation of the interest risk management tools is performed by the financial-economic department in cooperation with other respective departments. Based on the recommendations the Financial Committee is involved in decision-making process on implementation of the proposed tools. On the basis of the decisions of the Financial Committee the respective departments prepare for the approval by the Board changes in interest rates and other terms of transactions. The overall interest risk management is based on managing the interest rate gap. The quantitative risk determination is performed by subtraction of liabilities, subject to the interest rate risk from the assets, subject to the interest rate risk.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	2006		2005	
	BYR	Hard currencies	BYR	Hard currencies
<b>ASSETS</b>				
Time deposits with the National Bank	-	3.59%	3.00%	4.12%
Due from banks	10.00%	8.99%	1.93%	7.14%
Loans to customers	11.53%	10.01%	13.75%	9.91%
Securities available for sale	10.20%	-	9.50%	-
Securities held to maturity	-	8.48%	-	8.26%
<b>LIABILITIES</b>				
Loans from the National Bank	6.11%	1.95%	2.16%	3.00%
Due to banks	8.57%	7.71%	3.88%	4.44%
Customer accounts:				
- payable on demand	3.13%	3.6%	4.56%	3.60%
- time deposits	11.66%	6.31%	14.23%	5.92%
Debt securities issued	9.42%	6.45%	9.66%	5.91%

The Group has established controls over interest rate risk on the level of the Management Board, the Credit Committee and functional departments of the Group. Generally, the Group has the ability to change interest rates. Consequently, changes in interest rates in the market has usually led to a revision of contract terms of most financial instruments due to changes in economic situation in the country.

## Currency risk

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

In order to minimize currency risk of the Group as a whole, internal regulations prescribe the following procedures:

- quarterly calculations of the optimal open currency position for each currency. These calculations take into account requirements of the National Bank on open currency position, average daily turnovers on foreign currencies position accounts of the Group and trends in structural changes in foreign currency dealing transactions;
- calculations and approval by the Bank's Finance Committee of the loss limits, operational limits and limits for arbitrage transactions of the Treasury;
- communicating sublimits on the open currency position and maximum daily open currency position to the structural subdivisions of the Group. The calculations of these sublimits are based on a multi-factor mathematical model, which considers average daily turnovers on foreign currencies position accounts for each currency and such factors as risk of change of a foreign currency exchange rate, seasonal factors, geographical location of structural units;
- internal control procedures.

The following tables present an analysis of open currency position.

	<b>BYR and non- monetary items</b>	<b>USD 1 USD = BYR 2,140</b>	<b>EUR 1 EUR = BYR 2,817.31</b>	<b>Other currency</b>	<b>2006  BYR mln Total</b>
<b>ASSETS</b>					
Cash, balances with the National Bank and precious metals	756,863	29,073	199,267	12,225	997,428
Due from banks	59,833	61,808	10,001	31,525	163,167
Loans to customers	5,955,681	2,290,443	694,153	123,856	9,064,133
Securities available for sale	989,105	-	-	78	989,183
Securities held to maturity	-	59,073	42,269	6	101,348
Property, equipment and intangible assets	436,858	-	-	-	436,858
Other assets	89,656	3,525	2,088	37	95,306
<b>TOTAL ASSETS</b>	<b>8,287,996</b>	<b>2,443,922</b>	<b>947,778</b>	<b>167,727</b>	<b>11,847,423</b>
<b>LIABILITIES</b>					
Due to banks	1,047,990	283,478	402,841	43,484	1,777,793
Customer accounts	5,691,933	2,194,108	592,537	140,545	8,619,123
Debt securities issued	55,415	14,534	11,717	-	81,666
Other liabilities	39,135	46,791	9,593	838	96,357
<b>TOTAL LIABILITIES</b>	<b>6,834,473</b>	<b>2,538,911</b>	<b>1,016,688</b>	<b>184,867</b>	<b>10,574,939</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,453,523</b>	<b>(94,989)</b>	<b>(68,910)</b>	<b>(17,140)</b>	

## Derivative financial instruments

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

	BYR	USD 1 USD = BYR 2,140	EUR 1 EUR = BYR 2,817.31	Other currency	2006  BYR mln Total
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>					
Accounts payable on derivative contracts	-	(36,267)	-	-	(36,267)
Accounts receivable on derivative contracts	2,140	-	19,152	14,955	36,247
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<u>2,140</u>	<u>(36,267)</u>	<u>19,152</u>	<u>14,955</u>	<u>(20)</u>
<b>TOTAL OPEN POSITION</b>	<u>1,455,663</u>	<u>(131,256)</u>	<u>(49,758)</u>	<u>(2,185)</u>	

	BYR and non- monetary items	USD 1 USD = BYR 2,152	EUR 1 EUR = BYR 2,546.35	Other currency	2005  BYR mln Total
<b>ASSETS</b>					
Cash, balances with the National Bank and precious metals	705,125	261,131	16,623	9,526	992,405
Due from banks	7,619	74,855	14,465	27,685	124,624
Loans to customers	3,467,300	1,628,632	378,009	68,584	5,542,525
Securities available for sale	594,699	47	-	11	594,757
Securities held to maturity	-	95,988	38,203	-	134,191
Property, equipment and intangible assets	349,403	-	-	-	349,403
Other assets	76,877	98	225	100	77,300
<b>TOTAL ASSETS</b>	<u>5,201,023</u>	<u>2,060,751</u>	<u>447,525</u>	<u>105,906</u>	<u>7,815,205</u>

<b>LIABILITIES</b>					
Due to banks	189,097	70,659	210,932	7,479	478,167
Customer accounts	3,994,237	1,968,543	228,917	93,955	6,285,652
Debt securities issued	42,241	13,869	4,340	-	60,450
Other liabilities	48,517	2,702	5,832	10	57,061
<b>TOTAL LIABILITIES</b>	<u>4,274,092</u>	<u>2,055,773</u>	<u>450,021</u>	<u>101,444</u>	<u>6,881,330</u>
<b>OPEN BALANCE SHEET POSITION</b>	<u>926,931</u>	<u>4,978</u>	<u>(2,496)</u>	<u>4,462</u>	

### Derivative financial instruments

Fair value of derivative financial instruments is included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments as of 31 December 2005:

	BYR	USD 1 USD = BYR 2,152	EUR 1 EUR = BYR 2,546.35	Other currency	2005  BYR mln Total
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>					
Accounts payable on derivative contracts	(33,562)	-	(7,510)	-	(41,072)
Accounts receivable on derivative contracts	-	41,156	-	-	41,156
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<u>(33,562)</u>	<u>41,156</u>	<u>(7,510)</u>	<u>-</u>	<u>84</u>
<b>TOTAL OPEN POSITION</b>	<u>893,369</u>	<u>46,134</u>	<u>(10,006)</u>	<u>4,462</u>	

## Credit risk

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

Setting of the credit limits is one of the main tools of the credit risk mitigation. All the limits on operations with the assets subject to credit risk are set by the Board of the Bank, Finance Committee and other governing bodies of the Group. The Group performs the overall credit risk analysis on the assets subject to credit risk. Based on the analysis, recommendations on credit risk mitigation are prepared. The dynamics of the Group's assets, subject to credit risk is considered and the qualitative analysis of the assets, subject to credit risk, is performed for the credit risk assessment.

## Geographical concentration

The Group's management optimizes the risks related to the changes in the legislation of the Republic of Belarus and to the influence of these changes on the Group's operations. The preliminary control is made in the department for the International Settlement and Correspondent Relations based on the results of the analysis of the balances of the correspondent banks, country credit ratings, default cases, openness of the currency market, etc. To decrease the country risk the Treasury department uses the limits for the correspondent banks stated by the Group's Financial Committee. The further control is made by the relevant departments. When the increased risk is noticed during the transaction initiation the Group's management makes the decision whether to proceed with this transaction or to cancel it.

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

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	2006 BYR mln Total
<b>ASSETS</b>					
Cash, balances with the National Bank and precious metals	997,428	-	-	-	997,428
Due from banks	101,836	26,017	34,563	751	163,167
Loans to customers	9,064,133	-	-	-	9,064,133
Securities available for sale	989,183	-	-	-	989,183
Securities held to maturity	100,278	1,070	-	-	101,348
Property, equipment and intangible assets	436,858	-	-	-	436,858
Other assets	95,306	-	-	-	95,306
<b>TOTAL ASSETS</b>	<u>11,785,022</u>	<u>27,087</u>	<u>34,563</u>	<u>751</u>	<u>11,847,423</u>
<b>LIABILITIES</b>					
Due to banks	1,111,850	101,610	564,306	27	1,777,793
Customer accounts	8,619,123	-	-	-	8,619,123
Debt securities issued	81,666	-	-	-	81,666
Other liabilities	96,357	-	-	-	96,357
<b>TOTAL LIABILITIES</b>	<u>9,908,996</u>	<u>101,610</u>	<u>564,306</u>	<u>27</u>	<u>10,574,939</u>
<b>NET BALANCE SHEET POSITION</b>	<u>1,876,026</u>	<u>(74,523)</u>	<u>(529,743)</u>	<u>724</u>	

	Belarus	Other CIS countries	OECD countries	Other non-OECD countries	2005 BYR mln Total
<b>ASSETS</b>					
Cash, balances with the National Bank and precious metals	992,405	-	-	-	992,405
Due from banks	83,807	22,978	16,840	999	124,624
Loans to customers	5,542,525	-	-	-	5,542,525
Securities available for sale	594,682	58	17	-	594,757
Securities held to maturity	132,115	2,076	-	-	134,191
Property, equipment and intangible assets	349,403	-	-	-	349,403
Other assets	77,300	-	-	-	77,300
<b>TOTAL ASSETS</b>	<b>7,772,237</b>	<b>25,112</b>	<b>16,857</b>	<b>999</b>	<b>7,815,205</b>
<b>LIABILITIES</b>					
Due to banks	226,936	2,083	226,401	22,747	478,167
Customer accounts	6,285,652	-	-	-	6,285,652
Debt securities issued	60,450	-	-	-	60,450
Other liabilities	57,061	-	-	-	57,061
<b>TOTAL LIABILITIES</b>	<b>6,630,099</b>	<b>2,083</b>	<b>226,401</b>	<b>22,747</b>	<b>6,881,330</b>
<b>NET BALANCE SHEET POSITION</b>	<b>1,142,138</b>	<b>23,029</b>	<b>(209,544)</b>	<b>(21,748)</b>	

### 31. UNCERTAINTY

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

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

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