Joint Stock Bank of Reconversion and Development

Financial Statements
for the year ended 31 December 2011

CONTENTS

Deloitte.

Foreign Enterprise
Deloitte & Touche
51 Korolya Street
Minsk, 220004
Belarus

Tel.: +375 (0)17 200 03 53
Fax: +375 (0)17 200 0414
www.deloitte.by

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Joint Stock Bank of Reconversion and Development.

We have audited the accompanying financial statements of Joint Stock Bank of Reconversion and Development (the "Bank"), which comprise the statement of financial position as of 31 December 2011, the income statement, the statements of comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as well as for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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 auditors' 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 Bank'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 financial statements present fairly, in all material respects, the financial position of Joint Stock Bank of Reconversion and Development as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 4 to the financial statements which describes the effect of restatements of the comparative figures for the year ended 31 December 2010. Our opinion is not qualified in respect of this matter.

Other Matter

The financial statements of Joint Stock Bank of Reconversion and Development for the year ended 31 December 2010, before restatements and reclassifications described in Note 4 to the financial statements, were audited by another auditor who expressed an unmodified opinion on those statements on 13 May 2011.

We also audited the adjustments and reclassifications described in Note 4 that were applied to amend the comparative figures for the year ended 31 December 2010. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the financial statements of Joint Stock Bank of Reconversion and Development for the year ended 31 December 2010 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended 31 December 2010 taken as a whole.

Deloitte & Touche

11 May 2012
Minsk

INFORMATION ON MANAGEMENT

As at 31 December 2011 the members of the Management Board were as follows:

Name	***Position***
Martynov Y. G.	Chairman of the Management Board
Valynets Y. A.	Member of the Management Board, Deputy of the Chairman of the Management Board
Yurkevich N. K.	Member of the Management Board, Deputy of the Chairman of the Management Board
Petrovich E. E.	Member of the Management Board, Chief Accountant
Sinitsin A. G.	Member of the Management Board, Head of Personnel Department
Kiklevich S. P.	Member of the Management Board, Head of the Retail business Department
Rimar V. N.	Member of the Management Board, Head of the Risk management Department

During the year 2011 Head of Legal Department V. V. Dikan and Head of Security Department V. S. Savich were removed from the Management Board, S. P. Kiklevich and V. N. Rimar were appointed as Members of the Management Board.

As at 31 December 2011 the members of the Board of Directors were as follows:

Name	***Position***
Tsybulin V. A.	Chairman of the Board of Directors
Tsybulina E. A.	Member of the Board of Directors
Intven S.	Member of the Board of Directors, representative of Deutsche Investitions und Entwicklungsgesellschaft ("DEG")
Managadze I. N.	Member of the Board of Directors, representative of European Bank of Reconstruction and Development ("EBRD")
Kovzanadze I. K.	Member of the Board of Directors

On behalf of the management of the Bank:

Martynov Y. G.
Chairman of the Management Board

Karchmit T. I.
Acting Chief Accountant

АКЦЫЯНЕРНЫ БАНК РЭКАНВЕРСІІ І РАЗВІЦЦЯ
РРБ-БАНК
РЭСПУБЛІКА БЕЛАРУСЬ
г. МІНСК

Minsk
11 May 2012

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Management of Joint Stock Bank of Reconversion and Development ("Bank") is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of the Bank as of 31 December 2011, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, events and conditions on the Bank's financial position and financial performance;
- making an assessment of the Bank's ability to continue as going concern.

Management is also responsible for:

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

The financial statements for the year ended 31 December 2011 were authorised for issue on 11 May 2012 and signed on behalf of the management of the Bank.

On behalf of the management of the Bank:

Martynov Y. G.
Chairman of the Management Board

Karchmit T. I.
Acting Chief Accountant

РЭСПУБЛІКА БЕЛАРУСЬ АКЦЫЯНЕРНЫ БАНК РЭКАНВЕРСІІ І РАЗВІЦЦЯ РРБ-БАНК г. МІНСК

Minsk
11 May 2012

STATEMENT OF FINANCIAL POSITION

In millions of Belarusian Rubles

	Notes	31 December 2011	31 December 2010 (as restated, Note 4)
Assets			
Cash and balances with the National Bank of the Republic of Belarus	5	102,966	84,695
Financial assets at fair value through profit or loss	4, 6	274,860	26,252
Loans and receivables		399,343	549,062
Due from banks	*7*	*54,672*	*45,338*
Loans to customers	*8,33*	*344,671*	*503,724*
Financial assets available for sale	9	-	30,153
Investment property	4, 10	8,600	-
Property and equipment	4, 11	12,829	13,447
Intangible assets	12	1,138	987
Current tax asset		822	-
Other assets	4, 13	25,131	22,095
Total assets		**825,689**	**726,691**
Liabilities			
Financial liabilities at fair value through profit or loss	4, 6	12,705	3,733
Financial liabilities at amortised cost		681,768	476,862
Due to other banks	*14*	*120,624*	*59,910*
Customer accounts	*15,33*	*475,972*	*341,244*
Debt securities issued	*16,33*	*40,387*	*41,436*
Subordinated debt	*17*	*44,785*	*34,272*
Preference shares	18	5,406	11,281
Provision for unused vacation	19	402	763
Current income tax liability		-	672
Deferred tax liability	4,20	643	10,038
Other liabilities	21	2,196	3,353
Total liabilities		**703,120**	**506,702**
Equity			
Share capital	22	185,136	185,136
Treasury shares		(2)	(2)
Additional capital contribution	17	21,525	21,525
(Accumulated loss)/retained earnings		(84,090)	13,330
Total equity		**122,569**	**219,989**
Total liabilities and equity		**825,689**	**726,691**

On behalf of the management of the Bank:

Martynov Y. G.
Chairman of the Management Board

Karchmit T. I.
Acting Chief Accountant

РРБ-БАНК

Minsk
11 May 2012

The notes on pages 13-80 form an integral part of these financial statements.

INCOME STATEMENT

In millions of Belarusian Rubles

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (as restated, Note 4)
Interest income	4,23,33	149,729	117,064
Interest expense	4,23,33	(70,413)	(27,740)
Net interest income		**79,316**	**89,324**
Fee and commission income	24,33	15,238	12,819
Fee and commission expense	24,33	(3,468)	(1,219)
Net fee and commission income		**11,770**	**11,600**
Net gain on financial instruments at fair value through profit or loss	4,33	391,727	22,344
Net (loss)/gain on foreign exchange operations	4,25,33	(397,393)	13,377
Net loss on operations with financial assets available for sale		-	(614)
Net other income	4,26,33	11,204	7,072
Operating income		**96,624**	**143,103**
Operating expenses	4,27,33	(56,595)	(63,343)
Provision for impairment losses on interest bearing financial assets, net	8,33	(29,575)	(8,544)
Recovery of provision for impairment losses on other financial assets, net	13,33	-	4
Recovery of provision/(provision) for loan commitments, net	21,33	433	(854)
Provision for unused vacation, net	19,33	(36)	(197)
Profit before income tax and loss on net monetary position		**10,851**	**70,169**
Recovery of income tax expense/(income tax expense)	4,20,33	4,084	(16,416)
Profit before loss on net monetary position		**14,935**	**53,753**
Loss on net monetary position due to inflation	4,33	(112,353)	(15,474)
(Net loss)/net profit for the year		**(97,418)**	**38,279**

On behalf of the management of the Bank:

Martynov Y. G.
Chairman of the Management Board

Karchmit T. I.
Acting Chief Accountant

Minsk
11 May 2012

РЭСПУБЛІКА БЕЛАРУСЬ
БАНК РЭКАНВЕРСІІ І РАЗВІЦЦЯ
ААТ
РРБ-БАНК
г. МІНСК

The notes on pages 13-80 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE LOSS

In millions of Belarusian Rubles

	Year ended 31 December 2011	Year ended 31 December 2010 (as restated, Note 4)
(Net loss)/net profit for the year	**(97,418)**	**38,279**
Other comprehensive loss		
Net change in fair value of financial assets available for sale	-	(835)
Transfer of net result to profit or loss upon disposal of financial assets available for sale	-	672
Total other comprehensive income	**-**	**(163)**
Total comprehensive (loss)/income for the year	**(97,418)**	**38,116**

On behalf of the management of the Bank:

Martynov Y. G.
Chairman of the Management Board

Karchmit T. I.
Acting Chief Accountant

Minsk
11 May 2012

The notes on pages 13-80 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

In millions of Belarusian Rubles

	Notes	2011	2010 (as restated, Note 4)
Cash flows from operating activities			
Profit before income tax and loss on net monetary position	4	10,851	70,169
Adjustments to profit before income tax and loss on net monetary position:			
Net change in accrued income and expenses	4	3,661	(8,155)
Income received through repossession of collateral		(1,589)	(2,051)
Unrealised gain on financial instruments at fair value through profit or loss	4	(365,515)	(23,114)
Unrealised foreign exchange loss	4,25	362,009	1,675
Provision for impairment losses on interest bearing financial assets, net	8	29,575	8,544
Recovery of provision for impairment losses on other financial assets, net	13	-	(4)
(Recovery of provision)/provision for loan commitments, net	21	(433)	854
Gain from changes in fair value of investment property	4,10	(4,005)	-
Amortisation and depreciation	11,12	2,611	2,439
(Recovery of write down)/write down of other non-financial assets	4,27	(2,937)	2,937
Provision for unused vacation, net	19	36	197
Other expenses		290	140
Cash flows from operating activities before changes in operating assets and liabilities		**34,554**	**53,631**
(Increase)/decrease in operating assets:			
Obligatory reserve deposits with the National Bank of the Republic of Belarus		(3,525)	1,388
Due from banks		15,012	(21,526)
Loans to customers		(125,808)	(272,095)
Financial assets available for sale		20,676	(13,823)
Other assets		4,272	(10,595)
Increase/(decrease) in operating liabilities:			
Due to other banks		24,818	26,751
Customer accounts		196,444	179,733
Other liabilities		(4,151)	799
Net cash flow from operating activities before income tax		**162,292**	**(55,737)**
Income tax paid		(6,455)	(9,253)
Net cash inflow/(outflow) from operating activities		**155,837**	**(64,990)**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(2,939)	(4,779)
Proceeds from sales of property and equipment		30	6
Acquisition of investment property		(1,451)	-
Net cash outflows from investing activities		**(4,360)**	**(4,773)**

STATEMENT OF CASH FLOWS (INDIRECT METHOD) - CONTINUED

In millions of Belarusian Rubles

	Notes	2011	2010 (as restated, Note 4)
Cash flows from financing activities			
Share issue		-	44,850
Sale of treasury shares		-	4
Subordinated debt received		-	31,887
Subordinated debt paid		(1,442)	-
Dividends paid		(2)	(116)
(Repayment)/proceeds from issue of debt securities		(17,743)	43,213
Net cash (outflow)/inflow from financing activities		**(19,187)**	**119,838**
Net increase in cash and cash equivalents		**132,290**	**50,075**
Effect of inflation on cash and cash equivalents	4	(102,629)	(8,565)
Effect of changes in foreign exchange rates on cash and cash equivalents		18,584	23
Cash and cash equivalents at the beginning of the year	28	**105,518**	**63,985**
Cash and cash equivalents at the end of the year	28	**153,763**	**105,518**

Interest paid and received by the Bank during the year ended 31 December 2011 amounted to BYR 66,371 million and 149,972 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2010 amounted to BYR 27,014 million and BYR 108,033 million, respectively.

During the years ended 31 December 2011 and 2010 the Bank received property through repossession of collateral pledged under the default loans in the amount of BYR 4,595 million and BYR 12,041 million, respectively, which represents non-cash transactions.

On behalf of the management of the Bank:

Martynov Y. G.
Chairman of the Management Board

Karchmit T. I.
Acting Chief Accountant

РРБ-БАНК

Minsk
11 May 2012

The notes on pages 13-80 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

In millions of Belarusian Rubles

	Notes	Share capital	Treasury shares	Additional capital contribution	Fair value reserve	Retained earnings/ (accumulated loss)	Total equity
Balance as at 1 January 2010		**140,286**	**(6)**	**21,525**	**163**	**(24,833)**	**137,135**
Net profit for the year (as restated, Note 4)		-	-	-	-	38,279	38,279
Other comprehensive loss for the year							
Financial assets available for sale		-	-	-	(163)	-	(163)
Net change in fair value of financial assets available for sale		-	-	-	*(835)*	-	*(835)*
Transfer of net result to profit or loss upon disposal of financial assets available for sale		-	-	-	*672*	-	*672*
Total comprehensive income for the year		**-**	**-**	**-**	**(163)**	**38,279**	**38,116**
Transactions with shareholders recorded directly in equity							
Increase in share capital	22	44,850	-	-	-	-	44,850
Sale of treasure shares		-	4	-	-	-	4
Dividends paid	22	-	-	-	-	(116)	(116)
Balance as at 31 December 2010 (as restated, Note 4)		**185,136**	**(2)**	**21,525**	**-**	**13,330**	**219,989**
Net loss for the year		-	-	-	-	(97,418)	(97,418)
Total comprehensive (loss) for the year					**-**	**(97,418)**	**(97,418)**
Transactions with shareholders recorded directly in equity							
Dividends paid	22	-	-	-	-	(2)	(2)
Balance as at 31 December 2011		**185,136**	**(2)**	**21,525**	**-**	**(84,090)**	**122,569**

On behalf of the management of the Bank:

Martynov Y. G.
Chairman of the Management Board

Karchmit T. I.
Acting Chief Accountant

РРБ-БАНК

Minsk
11 May 2012

The notes on pages 13-80 form an integral part of these financial statements.

1. General information

Joint Stock Bank of Reconversion and Development (the "Bank") was established on 22 February 1994 as a closed joint stock company in accordance with the legislation of the Republic of Belarus. The Bank performs operations under the banking license # 21 issued by the National Bank of the Republic of Belarus on 31 January 2008. The Bank also has a license for performing professional and stock-exchange activities with securities issued by the Ministry of Finance of the Republic of Belarus and valid till 29 July 2012.

The Bank was established for commercial and retail banking operations on the territory of the Republic of Belarus. The principal activities of the Bank include providing loans to individuals, small and medium enterprises and other companies; attracting resources on deposits from non-banking and banking customers, legal entities and individuals, maintaining customer accounts, performing cash and settlement operations, operations with securities and foreign currency transactions.

The Bank has one branch in the Republic of Belarus in a regional city Vitebsk.

The registered address of the Bank is 18 Krasnozvyozdnaya Street, Minsk 220034, Republic of Belarus.

The average number of employees of the Bank was 411 in 2011 (2010 - 407).

2. Basis of presentation

Statement of compliance

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

General basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The management and shareholders have intention to develop further the business of the Bank in the Republic of Belarus. The Management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

The Bank maintains accounting records in accordance with the requirements of the effective legislation of the Republic of Belarus. The financial statements are prepared on the basis of these accounting records adjusted to comply with IFRS in all material respects.

These financial statements for the year ended 31 December 2011 were authorised for issue on 11 May 2012 and signed on behalf of the management by the Chairman of the Management Board and the Acting Chief Accountant.

These financial statements are presented in millions of Belarusian Rubles, unless otherwise indicated.

Hyperinflationary accounting

The economic environment in Belarus deteriorated significantly since the second quarter of 2011. Cumulative inflation in the last three years exceeds 100%. IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") states that a cumulative inflation rate over three years at or approaching 100% is an indicator that an economy is hyperinflationary.

Therefore the economy of the Republic of Belarus is considered to be hyperinflationary as defined by IAS 29. IAS 29 and IFRIC 7 "Applying the Restatement Approach under IAS 29" require the financial statements to be restated in the reporting period in which an entity identifies the existence of a hyperinflationary economy. IAS 29 has been applied as if the economy had always been hyperinflationary. Non-monetary transactions in 2011 and non-monetary balances at the end of the reporting period have been restated to be presented in the statement of financial position in monetary unit current at the end of the reporting period. The comparatives have been restated and were presented in these financial statements in terms of the monetary unit current at the end of the reporting period.

The restatement was made using the Consumer Price Index ("CPI"), published by the Belarusian Statistic Committee. The change in the Consumer Price Index rates for the five year period ended 31 December 2011 was as follows:

Year	**% change**
2007	12.1
2008	13.3
2009	10.1
2010	9.9
2011	108.7

Monetary assets and liabilities were not restated because they are already expressed in terms of the monetary unit current at 31 December 2011. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at 31 December 2011) and components of equity were restated by applying the relevant index. The effect of inflation on Bank's net monetary position is included in the income statement as gain or loss on net monetary position.

Tangible and intangible assets, share capital and other equity components were restated using indices, calculated from the date of purchase or contribution. Opening retained earnings were restated using index for the year 2011.

Amounts included in the income statement have been indexed by the change in the CPI for the year 2011 based on the assumption, that income and expenses have accrued evenly over the month.

Restatements of financial statements lines for hyperinflation are presented in correspondence with the line "Loss on net monetary position due to inflation", which is presented separately in the income statement.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities of the Bank, disclosure of contingent assets and liabilities at the reporting date and reported income and expenses for the reporting period. The estimates and associated assumptions are based on past experience and various other factors that are believed to be reasonable under the circumstances, when the carrying amount of assets and liabilities cannot be measured in other way. Although these estimates and judgments are based on management's best knowledge of current events and Bank's operations, actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the periods in which the estimates are revised and in any future periods affected. The accompanying financial statements reflect management's assessment of the potential impact of the economical environment in Belarus and global business environment on the operations and the financial position of the Bank. However, future developments in the business environment may differ from management's assessment.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment allowances on loans to customers and provisions for loan commitments

The allowance for impairment of loans assessed for impairment individually is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial position and the net realisable value of any underlying collateral. The impairment of loans, which are assessed collectively for impairment, is based on the available information, which evidences the decrease of the expected future cash flows on the loan group. The Bank's assumptions about estimated losses are based on past performance, past customer behaviour, customer solvency and general economic conditions, which are not necessarily an indication of future losses. When assessing credit risk and provisions, the Bank applies the same estimates and judgements to loan commitments as to loans.

Determination of fair value of financial instruments

Fair value of financial instruments that are traded in active markets are based on quoted market prices. Determination of fair value for financial instruments for which there are no observable market prices requires the use of valuation techniques described below.

Currency forward and swap contracts included in derivatives do not have active market and are valued using discounted cash flows model. The fair value of the derivatives is determined on the basis of the market interest rates for financial instruments with analogous credit quality and maturity applicable to respective currencies and exchange rates effective in the Republic of Belarus.

Determination of fair value of investment property

Building included in the investment property is measured at revalued amounts. The date of the latest appraisal was 31 December 2011 (Note 10).

Functional and presentation currency

The functional and presentation currency of the Bank is the national currency of the Republic of Belarus – Belarusian Ruble.

Adoption of new and revised International Financial Reporting Standards

In the reporting year the Bank adopted all new and amended standards and interpretations issued by IASB and by IFRIC related to Bank's operations and effective for the reporting period ended 31 December 2011. Their adoption did not have a sinificant impact on the Bank's financial statements, but it may influence the treatment of Bank's operations in the future.

Amendments to IAS 24 "Related Party Disclosures" (effective for annual periods beginning on or after 1 January 2011). The amendments to IAS 24 simplify the disclosure requirements for government-related entities, clarify the definition of a related party and clarify the definition of significant influence. Prior to amendments IAS 24 required an entity under control or significant influence of the government to disclose infomation about all operations with other entities also being under control or significant influence of the government. The amended version of IAS 24 should be adopted retrospectively and is obligatory for adoption for annual periods beginning on 1 January 2011.

Amendment to IAS 32 "Financial Instruments: Presentation" "Classification of Rights Issues". With the aim of futher development of IAS 32 the amendment "Classification of Rights Issues" was adopted which is effective for reporting periods beginning on or after 1 February 2010, with early adoption permitted. Under the amendment, rights issues of instruments issued to acquire a fixed number of the Bank's own non-derivative equity instruments for a fixed amount in any currency and which otherwise meet the definition of equity are classified as equity. Prior to amendment these instruments were accounted for as derivative financial liabilities. This amendment should be applied retrospectively in compliance with IAS 8 "Accounting policies, changes in accounting estimates and Errors"

Amendments to IFRS 7 "Financial Instruments: Disclosures" clarify the disclosure requirements for credit risk and collateral and provides the release of requirement for disclosure regarding restructured loans. Amendments are effective for annual reporting periods beginning on or after 1 January 2011.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010) – The Interpretation provides guidance on the accounting for debt financial liabilities issued in cases when they are renegotiated and as a result of such renegotiation the Bank is obliged to issue equity financial instruments to the creditor in order to fully or partially settle the debt financial instruments.

Standards and Interpretations issued but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective.

Amendments to IFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 July 2011, with earlier application permitted) – The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period.

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, the Bank need not provide comparative information for the disclosures required by the amendments for periods beginning before July 1, 2011. The Bank does not expect this amendment to have a material effect on its financial position or results of Bank's operations.

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015 with early application permitted) issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for their derecognition.

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

The Bank management anticipate that IFRS 9 that will be adopted in the Bank's financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 "Consolidated Financial Statements" – replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 "Consolidation – Special Purpose Entities" by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (ie whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 "Joint Arrangements" – replaces IAS 31 "Interests in Joint Ventures" with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures. The "jointly controlled assets" classification exists no more.

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.
- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (i.e. based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a "joint operation" recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 "Investments in Associates". Entities can no longer account for an interest in a joint venture using the proportionate consolidation method.

IFRS 12 "Disclosure of Interests in Other Entities" – requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

IAS 27 "Separate Financial Statements" (amended in May, 2011) – includes the provisions on separate financial statements that are left almost unchanged.

IAS 28 "Investments in Associates and Joint Ventures" (amended in May, 2011) – now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

This package of standards is effective for annual periods beginning on or after 1 January, 2013 with early application permitted provided that all from "the package of five" standards are applied. The Bank does not expect that these standards will have a significant impact on the financial statements as the Bank did not participate in business combinations.

IFRS 13 "Fair Value Measurement" – is effective for annual periods beginning on or after 1 January 2013. The Standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use when preparing financial statements under IFRS. The Standard:

- defines fair value;
- sets out in a single standard a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

The Bank is currently assessing the impact of the amended standard on its financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" **–** revise the way other comprehensive income is presented. The amendments are effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1:

- preserve the amendments made to IAS 1 in 2007 to require profit or loss and other comprehensive income to be presented together, i.e. either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss" and a "statement of comprehensive income"– rather than requiring a single continuous statement as was proposed in the exposure draft;
- require entities to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- require tax associated with items presented before tax to be shown separately for each of the two groups of other comprehensive income items (without changing the option to present items of other comprehensive income either before tax or net of tax).

The Bank does not expect this amendment to have a material effect on its financial position or results of operations.

Amendment to IAS 12 "Income Taxes" "Deferred tax – Recovery of underlying assets" (effective for annual periods beginning on or after 1 January 2012 with early application permitted). Amendments introduced in 2010 provide an exception to the existing principles of deferred tax measurement based on the expected manner of recovery of the underlying asset set in paragraph 52 of IAS 12 for investment property measured using fair value model in compliance with IAS 40 providing a rebuttable presumption that recovery of the carrying amount of such asset will be through sale. The assumption is rebuttable only if investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over the whole life of the asset. Retrospective application is required in accordance with IAS 8.

Bank is currently assessing the impact of the adoption of this amendment on the financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" – are effective for annual periods beginning on or after 1 January 2014. The amendments provide clarifications on the application of the offsetting rules, and focus on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off';
- the application of simultaneous realisation and settlement;
- the offsetting of collateral amounts;
- the unit of account for applying the offsetting requirements.

The respective amendments to the disclosure requirements in IFRS 7 "*Financial Instruments: Disclosure"* require disclosure of information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the Bank's recognised financial assets and recognised financial liabilities, on the Bank's financial position. These amendments are effective for annual periods for annual periods beginning on or after 1 January 2013.

The Bank is currently assessing the impact of this standards and interpretations on the financial statements.

3. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents represent assets which can be easily converted into cash with original maturity up to 90 days and include cash in hand, balances with the National Bank of the Republic of Belarus, balances with other credit institutions. Assets with original maturity exceeding 90 days can not be considered as cash equivalents when their residual period to maturity reduces to 90 days. The balances which are restricted for use are excluded from cash and cash equivalents.

Obligatory reserve deposits with the National Bank of the Republic of Belarus

Obligatory reserve deposits with the National Bank of the Republic of Belarus (the "National Bank") are funds deposited in the National Bank, which are not intended for the financing of current operations. Obligatory reserves with the National Bank are not included in cash and cash equivalents for the purposes of statement of cash flows.

Financial instruments

Classification of financial instruments on initial recognition is performed on the basis of intention, for which they were acquired or incurred and their characteristics.

Reclassification of financial instruments after their initial recognition is permitted or required only when certain criteria established by appropriate IFRS are met. During the analysis of the possibility of reclassification of financial instruments the Bank follows the principle that the financial instrument should meet the definition of the category where it is aimed to be reclassified.

Financial instruments are classified into the following categories.

Financial assets and liabilities at fair value through profit or loss are those that have been classified by the Bank as at fair value through profit or loss or as held for trading. Held for trading financial instruments are those that the Bank buys for the purpose of generating profit from short-term fluctuations in their price. Derivatives except for hedging instruments also fall to this category.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than

- those that the Bank intends to sell immediately or in the near term;
- those that the Bank designates upon initial recognition as at the fair value through profit or loss or as available for sale;
- those for which the Bank may not recover substantially all of its initial investments, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables include amounts due from banks, loans to customers and other financial assets which comply with these classification criteria.

Available-for-sale financial assets are non-derivative financial assets that are not included into any of the other categories described above. Available-for-sale instruments may include certain debt and equity investments.

Financial liabilities at amortised cost include financial liabilities except for:

- liabilities measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss;
- liabilities which arise from a transfer of financial assets not qualifying for derecognition and are accounted using the continuing involvement method (i.e. recognition of the assets to the extent of continuing involvement).

Financial liabilities at amortised cost include balances due to other banks, customer accounts, debt securities issued and other borrowed funds.

Initial recognition of financial instruments

The Bank recognises financial assets and liabilities in the statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognised using settlement date accounting.

Financial assets and liabilities are initially recognised 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.

Fair value of financial instruments

Fair value is the amount, for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument, otherwise, using external independent sources data on demand (supply) prices for comparable financial instruments. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

The determination of fair value for financial assets and liabilities, for which there is no observable market price requires the use of valuation techniques. Input data for such models is based on the market under observation, if possible; otherwise, application of judgment is required. The judgment should be made taking into account the liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation technics include models of net current value and discounted cash flow, comparison with analogous instruments for which there are observable prices. Assumptions and data used in valuation technics include risk-free and initial interest rates, loan spreads and other premiums used for estimation of discount rates, cost of debt and capital, currency exchange rates, capital and securities indexes and expected fluctuations of prices. The aim of valuation techniques is to assess the fair value of financial instrument equal to the value which could be determined by independent willing parties in an arm’s length transactions as at the reporting date.

Derecognition of financial assets

Derecognition of financial assets (or, if applicable, of a part of the financial asset or of a part of the group of similar financial assets) takes place only when:

- the contractual rights to the cash flows from the financial asset expire;
- the Bank transfers the contractual rights to receive the cash flows from the financial asset, or if the Bank retains the right to obtain cash receipt from such asset with simultaneous obligation to pay it in full to the third party without significant delays; or
- the Bank either transfers substantially all risks and rewards related to the asset, or does not transfer and does not retain all related risks and rewards, but at the same time transfers the control over this asset. The control is retained when the counterparty has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer.

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are represented by derivative instruments. They include foreign currency forwards and swaps. The Bank enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Bank do not qualify for hedge accounting as the Bank does not formally determine and document the strategy for hedge accounting and does not evaluate the hedge effectiveness.

Derivative financial instruments are initially recognised and subsequently measured at fair value. Fair values are obtained from the discounted cash flows model. Derivatives financial instruments are recognised in assets if their fair value is positive or otherwise in liabilities. Respective transaction costs are recognised in profit or loss in the period in which they are incurred. Both positive and negative valuation results on change in fair value of derivative financial instruments are recognised in the income statement line "Net gain/ (loss) on operations with financial instruments at fair value through profit or loss".

Due from banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Balances due from banks with fixed maturity are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Amortised cost is based on fair value of loans issued (deposits placed) determined considering interest rates of analogous (similar) loans and deposits effective at the date of loan issuing (deposit placement). If loans are issued (deposits placed) at interest rates which are higher (lower) than the market rates the difference between fair value and nominal value of a loan (deposit) is recognised in the income statement as effect of initial recognition of financial instruments at fair value. The due from banks balances with undefined maturity are measured at amortised cost based on the expected maturity. Due from banks are recorded at amortised cost less any impairment.

REPO deals

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.

Securities sale and purchase back agreements ("repos") are treated as borrowing transactions with transferring securities as collateral. Securities sold on repo are retained in the financial statements with the same classification as they had at the date of the deal. The difference between securities sale and purchase back prices is recognised as interest expense and is accrued at effective interest rate through the repo deal life.

Securities purchase and sale back agreements ("reverse repos") are considered as lending transactions collateralized by securities. Securities purchased on reverse repo agreements are not recognised in the statement of financial position. The difference between purchase price and sale back price of such securities is recognised as interest income and accrued applying effective interest rate through the reverse repo deal life. If the securities are sold to third parties, financial result from their purchase and sale is recognised in profit or loss.

The Bank enters into repo agreements with receiving or transferring collateral in the normal course of business. Under standard terms for repurchase transactions in the Republic of Belarus, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Loans to customers

Loans to customers are recognised at the moment of lending funds to customers in the amount of funds lent less transaction costs (i.e. at fair value). Loans issued at non-market interest rates are evaluated at the date of issue at fair value which is determined as future cash flows from the loan discounted at market rates for analogous loans. The difference between fair value and nominal value of loans is recognised in the income statement as effect on initial recognition of financial instruments at fair value. Subsequently, loans to customers are carried at amortised cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment loss.

Loans renegotiated during the reporting period which otherwise would be overdue are accounted for in accordance with renegotiated terms.

Financial assets impairment

The carrying amounts of financial assets or groups of financial assets of the Bank are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment losses are recognised when incurred as a result of one or more events ("loss events") occurred after the initial recognition of financial assets and loss events that have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is no objective evidence that a financial asset is individually impaired (irrespective of its materiality), this asset is included in a group of financial assets with similar features of credit risk and is collectively assessed for impairment with other assets.

Loans and advances to banks and customers are assessed individually for objective evidence of impairment for individually significant financial assets and collectively for financial assets which are not individually significant.

Objective evidences that loans and advances to banks and customers are impaired include:

- delinquency in any ordinary payment;
- significant financial difficulties of the borrower evidenced by the financial information available to the Bank;
- the risk of bankruptcy or other financial reorganisation of the borrower;
- negative change in national or local economic conditions that affect the borrower’s business;
- breach of a contract, such as refusal or evasion to make interest or principal payments;
- granting to the borrower a concession for economic or legal reasons relating to the borrower’s financial difficulty that the lender would not otherwise consider.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics such as asset type, collateral type, past-due status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criterion, based on which the objective evidence for the impairment loss on loans and advances to banks and customers assessed for impairment on a collective basis is identified, is available information which evidences the decrease of expected future cash flows on the financial assets group after their initial recognition, which can be reasonably determined, that cannot be attributed to the individual financial assets in this group. The objective evidences can include unfavourable changes in the borrowers' payment status of the group (for example, increase in the overdue payments number or in the number of credit cards' owners, who reach their credit limits and make minimal monthly payments), and national or local economic conditions attributable to the default in meeting obligations related to assets within the group (for example, growth of unemployment in the borrowers' geographical area, real estate price fall as applied to the state of mortgage in the corresponding area, or unfavourable changes of the industry environment, which may affect borrowers within the group).

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group and result of recovery of overdue amounts. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

To arrive to the present value of estimated cash flows, future cash flows are discounted at the original effective interest rate of an asset. If the loan is issued at the floating interest rate, future cash flows are discounted at the current effective interest rate. The present value of estimated cash flows of financial assets received as collateral is the amount which may be recovered through the sale of collateral less expenses on transferring and selling of collateral irrespective of possibility to repossess collateral.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account in profit or loss.

Assets are written off against allowance for impairment losses in case of uncollectibility of loans and advances in respect of which all procedures were performed in order to recover assets fully or partially and as a result the amount of impairment loss was determined.

Repossessed assets

In the normal course of business the Bank occasionally takes possession of non-financial assets that originally were pledged as security for loans. When the Bank acquires (i.e. gains a full title to) a non-financial asset in this way, the asset's classification follows the nature of its intended use by the Bank. Such assets are initially recognised at the carrying value of appropriate loans recorded in the statement of financial position. Subsequently such assets are usually classified as other assets and accounted for in accordance with IAS 2 at the lower of net realisable value and cost restated in order to be presented in monetary units current as at 31 December 2011.

Net realisable value is the estimated selling price for repossessed assets in the ordinary course of business less the estimated costs necessary to make the sale.

At each reporting date the Bank revises the net realisable value and compares it with the cost of repossessed assets recorded in the statement of financial position. If the cost of such assets is not recoverable due to damage or obsolescence of assets, market prices decline or increase in estimated costs of completion and costs necessary to make the sale, the Bank writes such assets down to their net realisable value and recognises the write down in operating expenses in the period such write down occurs. Subsequently, if the circumstances which led to write down of assets change or if there is an evidence of net realisable value growth the amount of write down is reversed so that the revised carrying amount in the statement of financial position would be the lower of net realisable value and cost.

Repossessed assets initially intended for purposes other than sale are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

Financial assets available for sale

Financial assets available for sale are represented by debt securities. Such securities are initially recorded at fair value. Subsequently these securities are measured at fair value with re-measurement recognised in other comprehensive income until sold when the gain/loss previously recorded in other comprehensive income recycles through the income statement. Interest income is accrued using the effective interest rate method and is recognised directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments in available-for-sale financial assets. Non-marketable debt securities for which fair value cannot be reliably measured are stated at amortised cost less impairment losses, if any.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognised in other comprehensive income is removed from other comprehensive income and recognised in the income statement for the period. The main criteria applied to determine objective indicators of securities impairment are the ability of issuer to settle obligations as well as the information about issuer ability to service securities issued, securities market condition and other information.

Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognised in the income statement for the reporting period.

Financial liabilities

Financial liabilities, except for those at fair value through profit and loss, are classified as financial liabilities accounted at amortised cost. Financial liabilities at amortised cost are recognised initially at fair value, less any transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

If financial liabilities are issued at interest rates above (below) the market rates the difference between fair value and nominal value of financial liabilities is recognised in profit or loss as effect on initial recognition of financial instruments at fair value. Subsequently the carrying value of financial liabilities in the statement of financial position is amortised using effective interest rate method with respective expenses being recorded as interest expenses in profit or loss.

For borrowings received from shareholders at other than market rates the difference between nominal amount of consideration received and the fair value is recognised in the statement of changes in equity as additional capital contribution in the period when such instruments were acquired. Subsequently, the carrying amount of such instruments is amortised and the related income/expense is recorded in the income statement using the effective interest rate method.

Derecognition of financial liabilities

The Bank derecognises a financial liability when the Bank's obligation is discharged or cancelled or expires. Where an existing financial liability(or its part) is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original and new financial liability is recognized in profit or loss.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Two financial instruments are accounted for as one combined financial instrument in the following cases:

- they are entered into at the same time and in contemplation of one another;
- they have the same counterparty;
- they relate to the same risk; and
- there is no apparent economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

Property and equipment

Property and equipment are recorded at historical cost restated in order to be presented in monetary units current as at 31 December 2011 less accumulated depreciation and impairment loss (if any).

The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, - the obligation which the Bank incurs either when the item is acquired or as a consequence of having used the item during a particular period for other than administrative purposes.

Gains and losses on disposals of property and equipment are determined by reference to their carrying values and recognised in the income statement as other income or expense.

Repair and maintenance costs are charged to the income statement as incurred.

Construction in progress is accounted for at cost restated in order to be presented in monetary units current as at 31 December 2011 less impairment allowance, if any. When construction is completed, it is transferred to property and recognised at the carrying value at transfer. Construction in progress is not subject to depreciation before it is put in operation.

Depreciation

Depreciation is charged from the month following the month property and equipment is put into operation. Depreciation is charged on a straight line basis using the following annual rates of depreciation:

- buildings – 2 - 11%;
- vehicles – 11 - 15%;
- office and computer equipment – 10 - 20%;
- other property and equipment – 5 - 25%;
- safes and other engineering devices (included in other property and equipment) – 2 - 3%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The residual values, depreciation methods and useful lives are reviewed and, if necessary, adjusted at each reporting date.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised if:

- it is probable that the Bank will receive future economic benefits attributable to the asset;
- the cost of the asset can be measured reliably.

Intangible assets include software, licenses and other intangible assets.

Intangible assets which are separately acquired are recognised at cost restated in order to be presented in monetary units current as at 31 December 2011 less accumulated amortisation and allowance for impairment, if any.

Intangible assets with a definite useful life are amortised during the useful life of 1 to 10 years and are evaluated for impairment when there is an evidence of possible impairment of intangible assets. Useful lives and method of amortisation of intangible assets are reviewed at least annually at the end of the reporting period.

Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than investment property and deferred tax are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists than the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of assets, other than goodwill, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

Gain or loss from disposal of property, equipment and intangible assets is determined as the difference between net inflows from disposal and carrying value of assets per the statement of financial position and is included in the income statement in "Net other income".

Investment property

The Bank classifies as investment property the real estate held (as the owner or lessee under a finance lease agreement), including property under construction or reconstruction for future use as investment property, to earn rentals or for capital appreciation or both, rather than for use in the supply of services or for administrative purposes; or sale in short-term perspective in the ordinary course of business. The Bank considers that short-term perspective is the ordinary operating cycle of 12 months. Investment property also includes assets with undefined use at the date of recognition or at the reporting date.

Investment property is initially recognized at cost, including direct transaction costs. After initial recognition the Bank values investment property at fair value with any gain or loss arising from a change in the fair value of investment property being recognized in profit or loss in the period in which it occurs. Current prices in an active market for identical real estate properties are the best evidence of the fair value. In the absence of current prices in an active market the Bank is guided by the following data: current prices in an active market for similar real estate properties, adjusted for the differences; recent prices for similar real estate properties in less active markets, adjusted to any changes from the transaction date to the reporting date; discounted cash flow projections.

Rental income from investment property and net gain/(loss) from change in fair value of investment property are recognised in the income statement in "Net other income".

The investment property is derecognized at its disposal or permanent withdrawal from operation when after the disposal of the investment property unit it is not expected to receive economic benefits.

Finance lease – Bank as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

The Bank as a lessor recognises the present value of future lease payments in its statement of financial position as "net investment in financial lease". Net investment in financial lease is the minimum lease payments receivable by the lessor under a finance lease and any unguaranteed residual value accruing to the lessor ("gross investment in financial lease") less unearned finance income.

The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. For this purpose the commitments should be in written form, signed by the parties under finance lease transaction and contain the significant terms of lease transaction.

Advances made by the lessee before inception of lease are deducted from net investments in lease.

If net investments in leases are impaired an impairment allowance is created. Net investments in lease are impaired if their carrying amount exceeds their estimated recoverable amount. The impairment allowance is determined as a difference between the carrying amount and the present value of estimated future cash flows on lease payments discounted at the original effective interest rate. Net investments in lease are measured in the statement of financial position less allowance for impairment.

Operating lease - Bank as a lessee

Operating lease is a lease under which all the risks and rewards incidental to the ownership of an asset are substantially maintained by the lessor. Lease payments under an operating lease are recognised as operating expenses on a straight-line basis over the lease term.

Operating lease - Bank as a lessor

The Bank accounts for and depreciates assets leased into operating lease in the same way as assets analogous in nature and functions. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease in income statement in “Other net income”.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Preference shares

Preference shares are classified as equity if they are non-redeemable, or redeemable only at the Bank’s option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Bank’s shareholders.

Preference share are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in the income statement as accrued.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

Share capital is accounted for at historical cost restated in order to be presented in monetary units current as at 31 December 2011.

Loan commitments

The Bank assumes loan commitments, including financial guarantees, letters of credit and commitments to issue loans. Guarantees are the Bank's irrevocable obligations to perform payments when the customer does not fulfil his obligations to the third parties. Letters of credit are the Bank's written obligations to make payments on behalf of customers in the agreed amount when certain conditions are met; they are secured with the corresponding deliveries of goods or deposits. Loan commitments represent an unused part of loans, guarantees or letters of credit authorised for issue. In respect of commitments to issue loans the Bank potentially has the risk to sustain losses equal to the total amount of the unused commitments. Though it is likely that the probable loss amount is less than the total amount of the unused obligations, as many loan commitment arrangements also stipulate customers' compliance with certain credit standards.

Loan commitments are initially recognised at fair value. At each reporting date loan commitments are measured at the higher of the unamortized amount initially recognised or the best estimated losses to be incurred to settlel the obligation as at the reporting date.

Provisions, contingent assets and liabilities

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

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank.

The Bank does not recognise contingent assets and liabilities in its financial statements because their existence depends on events not wholly within the control of the Bank.

Information about contingent liabilities is disclosed in the financial statements except for cases when an outflow of resources embodying economic benefits to settle the obligation is remote. Information about contingent assets is disclosed when inflow of resources embodying economic benefits is probable (more likely than not).

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided or work performed.

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Labour and Social Protection Ministry of the Republic of Belarus from its employee salaries.

The Bank carries no further pension obligations in respect of its retired and former employees.

Taxation

Tax expenses are recognised in the financial statements in accordance with requirements of the legislation of the Republic of Belarus. The current tax expense is based on taxable profit for the year using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset.

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 recognised in the income statement, except when it relates to items recognised directly ino other comprehensive income, in this case the deferred tax is also recognised in other comprehensive income.

Taxes other than income tax, which are stipulated by the legislation of the Republic of Belarus, are accounted for in operating expenses.

Income and expense recognition

All significant income and expense categories are recognised on an accrual basis.

Interest income and expenses are recognised in the income statement on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability 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 recorded in the statement of financial position. When calculating effective interest rate the Bank evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. The calculated effective interest rate usually includes any fees, points paid or received, transaction costs and other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

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

Commission income is recognised as revenue as the services are provided. Commission income on loan commitments, where it is probable that a loan commitment will lead to a specific lending arrangement, is deferred in other liabilities and subsequently recognised as an adjustment to the effective interest rate of the resulting loan. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in the income statement on expiry.

Fees and commissions for managerial or consulting services are recognised in accordance with the terms of service agreements. Commission income for services rendered for a long period of time or on continuing basis is recognised proportionally to the volume of services rendered in the reporting period.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by the National Bank of the Republic of Belarus at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the appropriate exchange rate prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into Belarusian Rubles at the exchange rate of the National Bank of the Republic of Belarus at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Rubles at the exchange rate of the National Bank of the Republic of Belarus at the date of fair value determination.

Gain and loss arising from these translations is included in the income statement in “Net gain/(loss) on foreign exchange operations”.

The exchange rates of the Belarusian Ruble to the main Bank`s operational foreign currencies are presented below:

Reporting date	**US Dollar (“USD”)/ Belarusian Ruble (“BYR”)**	**Euro (“EUR”)/ Belarusian Ruble (“BYR”)**	**Russian Ruble (“RUB”)/ Belarusian Ruble (“BYR”)**
31 December 2011	8,350.00	10,800.00	261.00
31 December 2010	3,000.00	3,972.60	98.44

Determination and presentation of operating segments

The Bank determines and presents operating segments based on the information that is provided internally to the Management Board, which is the Bank’s chief operating decision maker. Operating segments are determined and presented in accordance with IFRS 8 “Operating Segments”.

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses whose operating results are reviewed regularly by the key management personnel to make decisions about resources allocated to the segment and assess its performance.

Business activities which are not allocated to a certain component are combined and disclosed in the category “Other/not distributed” in order to provide reconciliation segments` activities to the financial statements of the Bank.

For segment reporting purposes interest income and expenses are determined based on the direct method, on the basis of actual results of each segment. Accounting for income tax expense and loss on net monetary position due to inflation is performed on group basis and is not allocated to segments.

4. Restatements and reclassifications

In 2011 the Bank's management determined that the deposit exchange deals concluded in 2010 with the National bank of the Republic of Belarus should be recognised as derivative financial instruments in accordance with IAS 39 “Financial instruments: recognition and measurement” (“IAS 39”) in order to best present their economic nature. Deposits were placed in USD under interest rates within the range of 0.19% to 0.27% with the simultaneous attraction of deposits in BYR under interest rates within the range of 1.19% to 1.50%. The deposits maturity is in years 2015 – 2017.

In 2011 the decision was also made to reclassify repossessed assets received by the Bank as a result of administrative building construction agreement restructuring and as a result of loan compensation agreement from “Property and equipment” and “Investment property”, respectively, to “Other assets” in order to best account for Bank’s management intentions in respect of those assets.

The effect of the adjustments made to the financial statements as of 31 December 2010 and for the year then ended is as follows:

In millions of Belarusian Rubles	**As previously reported (in monetary units current as at 31 December 2011)**	**Amount of adjustment (in monetary units current as at 31 December 2011)**	**As restated (in monetary units current as at 31 December 2011)**
Statement of financial position			
Financial assets at fair value through profit or loss	336	25,916	26,252
Due from the National Bank of the Republic of Belarus	93,694	(93,694)	-
Property and equipment	23,080	(9,633)	13,447
Investment property	9,117	(9,117)	-
Other assets	3,411	18,684	22,095
Financial liabilities at fair value through profit or loss	3,825	(92)	3,733
Due to the National Bank of the Republic of Belarus	80,125	(80,125)	-
Deferred tax liability	7,096	2,942	10,038
Income statement			
Interest income	118,346	(1,282)	117,064
Interest expense	(29,326)	1,586	(27,740)
Net effect on initial recognition of financial instruments at fair value	14,550	(14,550)	-
Net (loss)/gain on financial instruments at fair value through profit or loss	(4,732)	27,076	22,344
Net gain on foreign exchange operations	13,357	20	13,377
Net other income	4,850	2,222	7,072
Operating expenses	(60,406)	(2,937)	(63,343)
Income tax expense	(13,331)	(3,085)	(16,416)
Loss on net monetary position due to inflation	(15,672)	198	(15,474)

In millions of Belarusian Rubles	**As previously reported (in monetary units current as at 31 December 2011)**	**Amount of adjustment (in monetary units current as at 31 December 2011)**	**As restated (in monetary units current as at 31 December 2011)**
Statement of cash flows			
Profit before income tax and loss on net monetary position	58,034	12,135	70,169
Net change in accrued income and expenses	(7,846)	(309)	(8,155)
Gain on initial recognition of financial instruments at fair value	(14,550)	14,550	-
Unrealised gain on financial instruments at fair value through profit or loss	3,962	(27,076)	(23,114)
Unrealised foreign exchange loss	1,695	(20)	1,675
Gain from change in fair value of investment property	2,222	(2,222)	-
Write down of other non-financial assets	-	2,937	2,937
Increase in due from the National bank of the Republic of Belarus	(156,798)	156,798	-
Increase in due to the National bank of the Republic of Belarus	157,451	(157,451)	-
Effect of inflation on cash and cash equivalents	(9,223)	658	(8,565)

5. Cash and balances with the National Bank of the Republic of Belarus

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Due from the National Bank of the Republic of Belarus	72,785	47,224
Cash in hand	30,181	37,471
Total cash and balances with the National Bank of the Republic of Belarus	**102,966**	**84,695**

6. Financial instruments at fair value through profit or loss

As at 31 December 2011 financial instruments at fair value through profit or loss are presented as follows:

In millions of Belarusian Rubles	**Nominal amount**		**Fair value**	
	Currency acquired	**Amount of currency acquired**	**Asset**	**Liability**
Foreign currency forward contracts				
USD/BYR	USD	129,425	72,975	-
EUR/BYR	EUR	59,400	41,049	-
Total forward contracts		**188,825**	**114,024**	**-**
Foreign currency swap contracts				
USD/BYR	USD	301,364	160,836	
BYR/EUR	BYR	7,604	-	-
RUB/USD	RUB	28,971	-	-
EUR/USD	EUR	40,500	-	-
BYR/USD	BYR	46,713	-	12,705
Total swaps		**425,152**	**160,836**	**12,705**
Total		**613,977**	**274,860**	**12,705**

As at 31 December 2010 financial instruments at fair value through profit or loss are presented as follows:

In millions of Belarusian Rubles	**Nominal amount**		**Fair value**	
	Currency acquired	**Amount of currency acquired**	**Asset**	**Liability**
Foreign currency forward contracts				
USD/BYR	USD	109,560	6,573	1,069
EUR/BYR	EUR	45,596	2,987	872
Total forward contracts		**155,156**	**9,560**	**1,941**
Foreign currency forward contracts				
USD/BYR	USD	148,935	16,520	-
BYR/USD	BYR	56,126	172	1,792
Total swaps		**205,061**	**16,692**	**1,792**
Total (as restated, Note 4)		**360,217**	**26,252**	**3,733**

As at 31 December 2011 and 2010 financial instruments at fair value through profit or loss included foreign currency forward and swap deals with the National Bank of the Republic of Belarus with fair value of BYR 274,860 million and BYR 24,139 million, respectively.

These derivative financial instruments give rise to a credit risk of the Bank. The maximum credit exposure related to derivative financial instruments is equal to their carrying value presented in the statement of financial position.

7. Due from banks

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Balances neither impaired nor past due		
Nostro accounts	47,339	22,580
Loans issued to other banks under reverse repo agreements	6,740	22,314
Guarantee deposits placed with other banks for plastic cards transactions	593	444
Total due from banks	**54,672**	**45,338**

(a) Credit quality of due from banks

The following tables provide information on the credit quality of the due from banks, some of them are graded according to the current credit rating assessed by international rating agency Fitch Ratings:

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
A+	22,157	5,056
BB+	38	-
BB	-	1,797
BB-	2,554	6,598
B	161	-
Not rated	29,762	31,887
Total due from banks	**54,672**	**45,338**

(b) Collateral for reverse repo agreements

As at 31 December 2011 and 2010 loans issued to other banks under reverse repo agreements were placed in Belarusian banks and collateralized by long- and short-term bonds issued by Belarusian enterprises. The fair value of collateral as at 31 December 2011 and 2010 comprised BYR 6,903 million and BYR 22,360 million, respectively. The fair value of collateral was determined by the Bank on the basis of current prices of bonds provided by Belarusian Currency Stock Exchange.

(c) Concentration of due from other banks

As at 31 December 2011 and 2010 the Bank had balancies with two and one bank, respectively, individually exceeding 10% of the Bank's equity. The total of those balances as at 31 December 2011 and 2010 comprised BYR 43,721 million and BYR 21,371 million, respectively.

(d) Maximum exposure to credit risk

The maximum exposure to credit risk of balances due from banks equals the net carrying amounts as reported in the statement of financial position.

8. Loans to customers

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Commercial loans		
Credit lines	87,572	110,028
Regular loans	14,789	29,851
Finance leases	1,526	4,737
Total commercial loans	**103,887**	**144,616**
Loans to individuals		
Consumer loans	245,542	353,263
Loans to individuals for business development	5,036	10,050
Mortgage loans	2,383	2,100
Car loans	2,241	8,057
Overdrafts	671	741
Plastic card loans	297	498
Total loans to individuals	**256,170**	**374,709**
Total loans to customers	**360,057**	**519,325**
Less impairment allowance	(15,386)	(15,601)
Total loans to customers less allowance for impairment	**344,671**	**503,724**

(a) (i) Credit quality of commercial loan portfolio

The following tables provide information on the credit quality of the commercial loan portfolio:

In millions of Belarusian Rubles	**Gross loans**	**Impairment allowance**	**Loans less impairment allowance**	**Impairment allowance to gross loans, %**
As at 31 December 2011				
Loans for which no impairment has been identified	34,070	-	34,070	0.0%
Loans individually assessed for impairment	59,732	6,052	53,680	10.1%
Loans collectively assessed for impairment	10,085	755	9,330	7.5%
Total commercial loans	**103,887**	**6,807**	**97,080**	**6.6%**

In millions of Belarusian Rubles	**Gross loans**	**Impairment allowance**	**Loans less impairment allowance**	**Impairment allowance to gross loans, %**
As at 31 December 2010				
Loans for which no impairment has been identified	38,832	-	38,832	0.0%
Loans individually assessed for impairment	89,993	9,974	80,019	11.1%
Loans collectively assessed for impairment	15,791	343	15,448	2.2%
Total commercial loans	**144,616**	**10,317**	**134,299**	**7.1%**

(a) (ii) Analysisg of impaired commercial loans ageing

For the purpose of this disclosure the loan is considered to be overdue if at least one loan payment is overdue as at the reporting date. In this case the total amount of loan outstanding is considered overdue.

In millions of Belarusian Rubles	**Gross loans**	**Impairment allowance**
As at 31 December 2011		
Not overdue	65,741	6,676
Overdue less than 1 month	-	-
Overdue from 1 to 3 month	384	3
Overdue from 3 to 6 month	895	117
Overdue from 6 months to 1 year	2,797	11
Overdue more than 1 year	-	-
Total impaired commercial loans	**69,817**	**6,807**

In millions of Belarusian Rubles	**Gross loans**	**Impairment allowance**
As at 31 December 2010		
Not overdue	88,324	2,990
Overdue less than 1 month	112	1
Overdue from 1 to 3 month	13,424	5,972
Overdue from 3 to 6 month	3,008	438
Overdue from 6 months to 1 year	-	-
Overdue more than 1 year	916	916
Total impaired commercial loans	**105,784**	**10,317**

(a) (iii) Analysis of commercial loans by type of collateral

Securing loans by collateral allows the Bank to minimize Bank's credit risks. The table below summarizes types of collateral securing commercial loans as at 31 December 2011 and 2010. The table presents the amount of loans secured by collateral, rather than the fair value of the collateral itself. Other collateral generally includes equipment, transport vehicles and goods in turnover.

In millions of Belarusian Rubles	**Gross loans**	**Share in loan portfolio, %**	**Impairment allowance**
As at 31 December 2011			
Real estate	43,490	41.9%	1,018
Other collateral	29,369	28.3%	2,331
Third party guarantees	28,662	27.6%	3,177
Guarantee deposits	327	0.3%	-
Unsecured loans	2,039	1.9%	281
Total commercial loans	**103,887**	**100.0%**	**6,807**

In millions of Belarusian Rubles	**Gross loans**	**Share in loan portfolio, %**	**Impairment allowance**
As at 31 December 2010			
Real estate	50,964	35.2%	2,890
Other collateral	43,607	30.2%	3,861
Third party guarantees	45,904	31.7%	3,303
Guarantee deposits	846	0.6%	107
Unsecured loans	3,295	2.3%	156
Total commercial loans	**144,616**	**100.0%**	**10,317**

(a) (iv) Industry analysis of commercial loans

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Trade	33,413	52,230
Manufacturing	23,396	21,997
Real estate	14,297	34,595
Construction	10,801	13,147
Transportation	10,635	3,480
Agriculture and food industry	4,550	5,945
Leasing	4,188	5,054
Production of pharmaceuticals	1,054	3,185
Maintenance	-	2,707
Other	1,553	2,276
Less impairment allowance	(6,807)	(10,317)
Total commercial loans less allowance for impairment	**97,080**	**134,299**

(a) (v) Movements in the impairment allowance for commercial loans

Movements in the impairment allowance for commercial loans for the years ended 31 December 2011 and 2010 are as follows:

In millions of Belarusian Rubles	**2011**	**2010**
Allowance for impairment		
Balance as at 1 January	10,317	7,610
Charge for the year	16,481	3,792
Write-offs	(12,711)	(244)
Inflation effect	(7,280)	(841)
Balance as at 31 December	**6,807**	**10,317**

(a) (vi) Finance lease

Finance leases provided to commercial customers were as follows:

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Finance lease receivables:		
Gross investment in finance leases receivable:		
Less than one year	1,710	3,693
Between one year and five years	461	1,897
Total gross investment in finance leases receivable	**2,171**	**5,590**
Unearned future income on finance leases	(645)	(853)
Net investment in finance leases	**1,526**	**4,737**
The net investment in financial leases comprises:		
Less than one year	1,139	3,065
Between one year and five years	387	1,672
Net investment in finance leases	**1,526**	**4,737**

(b) (i) Credit quality of loans to individuals

The following tables provide information on the credit quality of loans to individuals:

In millions of Belarusian Rubles	**Gross loans**	**Impairment allowance**	**Loans less impairment allowance**	**Impairment allowance to gross loans, %**
As at 31 December 2011				
Loans for which no impairment was identified	4,549	-	4,549	0.0%
Loans individually assessed for impairment	7,293	1,352	5,941	18.5%
Loans collectively assessed for impairment	244,328	7,227	237,101	3.0%
Total loans to individuals	**256,170**	**8,579**	**247,591**	**3.3%**

In millions of Belarusian Rubles	**Gross loans**	**Impairment allowance**	**Loans less impairment allowance**	**Impairment allowance to gross loans, %**
As at 31 December 2010				
Loans for which no impairment was identified	52,740	-	52,740	0.0%
Loans individually assessed for impairment	9,661	638	9,023	6.6%
Loans collectively assessed for impairment	312,308	4,646	307,662	1.5%
Total loans to individuals	**374,709**	**5,284**	**369,425**	**1.4%**

(b) (ii) Analysis of impaired loans to individuals ageing

For the purpose of this disclosure the loan is considered to be overdue if at least one loan payment is overdue as at the reporting date. In this case the total amount of loan outstanding is considered overdue.

In millions of Belarusian Rubles	**Gross loans**	**Impairment allowance**
As at 31 December 2011		
Not overdue	241,392	4,057
Overdue less than 1 month	3,662	713
Overdue from 1 to 3 month	3,646	1,560
Overdue from 3 to 6 month	1,676	1,131
Overdue from 6 months to 1 year	1,241	1,114
Overdue more than 1 year	4	4
Total impaired loans to individuals	**251,621**	**8,579**

In millions of Belarusian Rubles	**Gross loans**	**Impairment allowance**
As at 31 December 2010		
Not overdue	310,705	1,343
Overdue less than 1 month	4,932	651
Overdue from 1 to 3 months	2,596	826
Overdue from 3 to 6 months	2,263	1,355
Overdue from 6 months to 1 year	1,473	1,109
Overdue more than 1 year	-	-
Total impaired loans to individuals	**321,969**	**5,284**

(b) (iii) Analysis of loans to individuals by type of collateral

The table below summarizes types of collateral securing loans to individuals as at 31 December 2011 and 2010. The table presents the amount of loans secured by collateral, rather than the fair value of the collateral itself. Other collateral generally includes transport.

In millions of Belarusian Rubles	**Gross loans**	**Share in loan portfolio, %**	**Impairment allowance**
As at 31 December 2011			
Other collateral	5,461	2.1%	932
Third party guarantees	3,585	1.4%	673
Real estate	671	0.3%	95
Unsecured loans	246,453	96.2%	6,879
Total loans to individuals	**256,170**	**100.0%**	**8,579**

In millions of Belarusian Rubles	**Gross loans**	**Share in loan portfolio, %**	**Impairment allowance**
As at 31 December 2010			
Other collateral	12,782	3.4%	561
Third party guarantees	5,747	1.5%	212
Real estate	889	0.3%	3
Unsecured loans	355,291	94.8%	4,508
Total loans to individuals	**374,709**	**100.0%**	**5,284**

(b) (iv) Movements in the impairment allowance for loans to individuals

Movements in the loan impairment allowance for loans to individuals for the years ended 31 December 2011 and 2010 are as follows:

In millions of Belarusian Rubles	**2011**	**2010**
Allowance for impairment		
Balance as at 1 January	5,284	6,207
Charge for the year	13,094	4,752
Write-offs	(3,502)	(5,146)
Inflation effect	(6,297)	(529)
Balance as at 31 December	**8,579**	**5,284**

(c) Significant credit exposures

As at 31 December 2011 and 2010 the Bank had no significant credit exposures to borrowers whose loan balances exceeded 10% of the Bank's equity.

(d) Maximum exposure to credit risk

The maximum exposure to credit risk of loans to customers equals to net carrying amounts as reported in the statement of financial position. The effect of collateral on maximum exposure to credit risk of loans to customers as at 31 December 2011 and 2010 comprised BYR 103,339 million and BYR 149,802 million which is the less of fair value of collateral and carrying value of loans presented in the statement of financial position.

(e) Other

In 2011 the Bank acquired non-financial assets by taking possession of collateral held as security for loans issued. As at 31 December 2011 such assets of BYR 4,595 million were classified by the Bank as investment property (Note 10)

In 2010 the Bank also acquired non-financial assets by taking possession of collateral held as security for loans issued which were classified as other assets of BYR 9,104 million as at 31 December 2010 (Note 13).

9. Financial assets available for sale

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Debt instruments		
Short-term bonds of OJSC "Belgazprombank" (Republic of Belarus)	-	30,153
Total financial assets available for sale	**-**	**30,153**

As at 31 December 2010 financial assets available for sale included 15,000 short-term bonds of OJSC "Belgazprombank". The bonds are issued in Belarusian Rubles with fixed coupon interest rate of 16% and maturity in 2011. The credit rating of OJSC "Belgazprombank" according to international rating agency Fitch Ratings as at 31 December 2010 was "B".

10. Investment property

In millions of Belarusian Rubles	**2011**	**2010 (as restated, Note 4)**
Balance as at 1 January	-	-
Acquisition	4,595	-
Gain from fair value changes	4,005	-
Balance as at 31 December	**8,600**	**-**

The table below summarizes the amount of rental income and direct operating expenses arising from the investment property and recognized in profit or loss for the year:

In millions of Belarusian Rubles	**2011**	**2010**
Rental income arising from investment property	247	-
Direct operating expenses (including repair and maintenance) arising from investment property generating rental income	(50)	-
Net income arising from investment property	**197**	**-**

In 2011 the Bank acquired an administrative building by taking possession of collateral held as security for a loan issued. Bank’s management made a desicion d to lease the building under operating lease. The property was initially recognized at cost. As at 31 December 2011 independent valuators assessed the fair value of the building to be BYR 8,600 million.

The table below summarizes the future minimum lease payments under non-cancellable operating lease of the building classified as investment property:

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Not later than 1 year	76	-
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
Total future minimum lease payments	**76**	**-**

The Bank has no restrictions on the realisability of investment property as well as no contractual obligations to purchase, construct or develop any investment property or for repairs, maintenance or enhancements.

11. Property and equipment

In millions of Belarusian Rubles	**Buildings**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Construction in progress and assets not put into operation**	**Total**
Net book value as at 31 December 2010 (as restated, Note 4)	**2,756**	**1,320**	**8,568**	**803**	**13,447**
Cost					
Balance as at 1 January 2011	3,771	3,089	15,577	803	23,240
Additions				2,004	2,004
Transfers	1,465	47	1,291	(2,803)	-
Disposals	(343)	(59)	(721)	-	(1,123)
Balance as at 31 December 2011	**4,893**	**3,077**	**16,147**	**4**	**24,121**
Accumulated depreciation					
Balance as at 1 January 2011	1,015	1,769	7,009	-	9,793
Charge for the year	357	285	1,697	-	2,339
Accumulated depreciation on disposals	(153)	(45)	(642)	-	(840)
Balance as at 31 December 2011	**1,219**	**2,009**	**8,064**	**-**	**11,292**
Net book value as at 31 December 2011	**3,674**	**1,068**	**8,083**	**4**	**12,829**

In millions of Belarusian Rubles	**Buildings**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Construction in progress and assets not put into operation**	**Total**
Net book value as at 31 December 2009	**2,632**	**1,625**	**8,886**	**9,761**	**22,904**
Cost					
Balance as at 1 January 2010	3,469	3,083	15,359	9,761	31,672
Additions	-	-	-	2,528	2,528
Transfers	435	6	1,412	(1,853)	-
Transfer from property and equipment to other assets	-	-	-	(9,633)	(9,633)
Disposals	(133)	-	(1,194)	-	(1,327)
Balance as at 31 December 2010 (as restated, Note 4)	**3,771**	**3,089**	**15,577**	**803**	**23,240**
Accumulated depreciation					
Balance as at 1 January 2010	837	1,458	6,473	-	8,768
Charge for the year	258	311	1,637	-	2,206
Accumulated depreciation on disposals	(80)	-	(1,101)	-	(1,181)
Balance as at 31 December 2010 (as restated, Note 4)	**1,015**	**1,769**	**7,009**	**-**	**9,793**
Net book value as at 31 December 2010 (as restated, Note 4)	**2,756**	**1,320**	**8,568**	**803**	**13,447**

12. Intangible assets

In millions of Belarusian Rubles	**Software and licenses**	**Investments in intangible assets**	**Total**
Net book value as at 31 December 2010	**987**	**-**	**987**
Cost			
Balance as at 1 January 2011	1,727	-	1,727
Additions	412	11	423
Disposals	(439)	-	(439)
Balance as at 31 December 2011	**1,700**	**11**	**1,711**
Accumulated amortisation			
Balance as at 1 January 2011	740	-	740
Charge for the year	272	-	272
Accumulated amortization on disposals	(439)	-	(439)
Balance as at 31 December 2011	**573**	**-**	**573**
Net book value as at 31 December 2011	**1,127**	**11**	**1,138**

In millions of Belarusian Rubles	**Software and licenses**	**Investments in intangible assets**	**Total**
Net book value as at 31 December 2009	**818**	**-**	**818**
Cost			
Balance as at 1 January 2010	1,475	-	1,475
Additions	402	-	402
Disposals	(150)	-	(150)
Balance as at 31 December 2010	**1,727**	**-**	**1,727**
Accumulated amortisation			
Balance as at 1 January 2010	657	-	657
Charge for the year	233	-	233
Accumulated amortization on disposals	(150)	-	(150)
Balance as at 31 December 2010	**740**	**-**	**740**
Net book value as at 31 December 2010	**987**	**-**	**987**

13. Other assets

In millions of Belarusian Rubles	31 December 2011	31 December 2010 (as restated, Note 4)
Non-financial assets	**23,330**	**20,159**
Repossessed assets	21,624	18,737
Prepayments for property and equipment	773	623
Prepayments for taxes (other than income tax)	618	436
Advances paid to suppliers	284	260
Other	31	103
Financial assets, net	**1,801**	**1,936**
Accrued commission income and penalties	1,355	1,474
Receivables on reimbursement of state fees	364	521
Receivables on transactions with plastic cards	113	-
Other	12	31
Less allowance for impairment of other financial assets	(43)	(90)
Total other assets	**25,131**	**22,095**

The table below summarizes the information about assets repossessed by the Bank:

In millions of Belarusian Rubles	31 December 2011	31 December 2010
Residential real estate under construction repossessed as a result of debt restructuring under administrative office construction contract	9,633	9,633
Residential real estate under construction repossessed as a compensation for loans to customers	11,988	9,051
Other assets repossessed as a compensation for loans to customers	3	53
Total assets repossessed by the Bank	**21,624**	**18,737**

As at 31 December 2011 all repossessed assets are presented in the statement of financial position at cost restated in order to be presented in monetary units current as at 31 December 2011.

As at 31 December 2010 residential real estate under construction repossessed as a compensation for loans to customers issued was recognized at net realizable value which is the net present value of expected future cash flows from sale of the property after completion of construction. The information about these assets write down in 2010 and recovery of write down in 2011 caused by increase in net realizable value due to growth in prices for real estate denominated in BYR due to national currency devaluation is presented in Note 27.

Below the movement in allowance for impairment of other assets during 2011 and 2010 is presented:

In millions of Belarusian Rubles	2011	2010
Allowance for impairment		
Balance as at 1 January	90	103
Recovery for the year	-	(4)
Inflation effect	(47)	(9)
Balance as at 31 December	**43**	**90**

14. Due to other banks

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Loans and deposits from banks	91,261	59,734
Temporary accounts of banks	29,225	-
Correspondent accounts of banks	138	176
Total due to other banks	**120,624**	**59,910**

As at 31 December 2011 and 2010 the Bank had balances of four and one banks, respectively, whose balances exceeded 10% of Bank's equity. The total carrying value of these balances as at 31 December 2011 and 2010 amounted to BYR 90,272 million and BYR 21,912 million, respectively.

15. Customer accounts

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Corporate customers		
- term deposits	199,782	117,294
- current accounts	60,636	77,189
Individuals		
- term deposits	212,421	144,378
- current accounts	3,133	2,383
Total customer accounts	**475,972**	**341,244**

Below the analysis of customer accounts by industry is presented:

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Individuals	215,554	146,761
Industry	82,944	49,020
Trade	70,195	63,753
Science and education	29,711	22,665
Construction	25,988	21,593
Insurance	18,129	14,030
Real estate	6,671	5,476
Transport	6,248	3,360
Non-commercial organisations	4,226	2,074
Telecommunication industry	3,373	2,625
Lease	2,319	140
Publishing	1,374	2,832
Public health and physical training	1,102	117
Agriculture and food processing industry	710	1,826
Tourism	576	186
Production of pharmaceuticals	388	238
Data-processing service	231	795
Other	6,233	3,753
Total customer accounts	**475,972**	**341,244**

As at 31 December 2011 and 2010 the Bank had three and two customers, respectively, whose balances exceeded 10% of total Bank's equity. These balances as at 31 December 2011 and 2010 were BYR 101,221 million and BYR 59,605 million, respectively.

16. Debt securities issued

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Debt securities issued to corporate customers	40,387	37,841
Debt securities issued to related parties	-	3,595
Total debt securities issued	**40,387**	**41,436**

As at 31 December 2011 debt securities issued were presented by USD bonds of the second issue at coupon interest rate of 8% maturing at 26 August 2013. These bonds are traded over-the-counter. In 2011 the Bank settled ahead of schedule the first issue of debt securities held by related parties and duly settled the rest of the debt securities of the first issue held by third parties. The bonds of the first issue were issued in 2010 in USD at coupon rate of 7.5%.

17. Subordinated debt

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Subordinated debt from European Bank for Reconstruction and Development (“EBRD”)	1,422	994
Subordinated debt from Deutsche Investitions und Entwicklungsgesellschaft (DEG)	43,363	33,278
Total subordinated debt	**44,785**	**34,272**

The subordinated debt from EBRD was received on 9 December 2008 in the amount of USD 4,009 thousand with a maturity on 6 October 2057 and fixed interest rate of 0.5%. The debt was recognised at fair value in the liabilities of the Bank with the fair value effect on initial recognition recorded in the equity as additional capital contributions in the amount of BYR 21,525 million.

In 2010 the subordinated debt from DEG of EUR 4,000 thousand has a maturity on 21 May 2016 and a floating interest rate of 12 months EUR LIBOR+6%.

According to subordinated debt agreements, in the event of liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank’s liabilities to all other creditors.

18. Preference shares

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Number of preference shares	6,886,084	6,886,084
Face value of 1 share, BYR	785	785
Face value of preference shares	5,406	5,406
Inflation effect	-	5,875
Total preference shares	**5,406**	**11,281**

As at 31 December 2011 and 2010 the Bank had 6,886,084 preference shares with a face value of BYR 785 per share. Annual minimum compulsory dividend income on each preference share amounts to USD 0.01394 per share. Preference shares do not have voting rights.

As at 31 December 2011 and 2010 the Bank accrued liability on payment of minimum compulsory dividend of BYR 200 million and BYR 150 million, respectively (Note 21).

19. Provision for unused vacation

Movements in provision for unused vacation for the year ended 31 December 2011 and 31 December 2010 are as follows:

In millions of Belarusian Rubles	2011	2010
Provision for unused vacation		
Balance as at 1 January	763	622
Charge for the year	36	197
Inflation effect	(397)	(56)
Balance as at 31 December	**402**	**763**

20. Income tax

The Bank provides for tax based on the tax accounting maintained and prepared in accordance with the tax regulations of the Republic of Belarus.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income items.

For the year ended 31 December 2011 the income tax rate for Belarusian banks was 24%. For the year ended 31 December 2010 the income tax rate was 24% - for republican tax and 3% - for municipal tax; the last was not applied since 1 January 2011. The rates were applied successively and in 2010 the effective tax rate was 26.28%. Starting from 1 January 2012 the income tax rate in Belarus is set at 18%. Deferred tax liability (deferred tax asset) is calculated using the tax rate which is expected to be effective in the period when deferred tax liability is settled (or deferred tax asset is realized) – 18%.

During 2011 and 2010 the head office and the branch of the Bank calculated and paid income tax and other taxes and duties independently, at the local level.

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2011 and 2010 comprise:

In millions of Belarusian Rubles	**31 December2011**	**31 December2010 (as restated, Note 4)**
Deductible temporary differences:		
Financial instruments at fair value through profit or loss	39,858	-
Other assets and other liabilities	-	5,523
Total deductible temporary differences	**39,858**	**5,523**
Deferred tax asset at the statutory tax rate (18% and 24%, respectively)	**7,174**	**1,326**
Taxable temporary differences:		
Subordinated debt	(24,046)	(6,583)
Loans to banks and customers	(6,708)	(4,092)
Property, equipment and intangible assets	(6,464)	(4,199)
Accrued income	(1,038)	(8,724)
Other assets and liabilities	(5,174)	-
Financial instruments at fair value through profit or loss	**-**	(23,751)
Total taxable temporary differences	**(43,430)**	**(47,349)**
Deferred tax liabilities at the statutory tax rate (18% and 24%, respectively)	**(7,817)**	**(11,364)**
Total net tax liability	**(643)**	**(10,038)**

Relationships between tax expense and the theoretical tax expense for the years ended 31 December 2011 and 2010 are explained as follows:

In millions of Belarusian Rubles	**2011**	**2010 (as restated, Note 4)**
(Loss)/profit before income tax and after loss on net monetary position	(101,502)	54,695
Tax at the statutory tax rate (24% and 26.28% respectively)	**(24,360)**	**14,374**
Tax effect of permanent differences:		
Tax incentives on capital expenditure and securities	(2,602)	(1,198)
Tax effect of non-taxable expenses	349	405
Effect of change in tax base of property, equipment and intangible assets due to revaluation performed under Belarusian statutory accounting rules	(3,106)	(251)
Tax effect of change in income tax rate	(214)	(954)
Tax effect of the inflation of equity components on profit	27,497	3,331
Tax effect of the inflation of income tax	(2,529)	220
Tax effect of other permanent differences	(881)	489
(Recovery of income tax expense)/income tax expense	**(4,084)**	**16,416**

Income tax expense is presented as follows:

In millions of Belarusian Rubles	**2011**	**2010 (as restated, Note 4)**
Current tax expense	5,311	9,957
(Recovery of deferred tax expense)/deferred tax expense	(9,395)	6,459
(Recovery of income tax expense)/income tax expense	**(4,084)**	**16,416**

21. Other liabilities

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Non-financial liabilities	**1,395**	**1,357**
Payments to the Individuals' Deposit Guarantee Fund	640	438
Deferred income	553	708
Accruals on taxes, other than income tax	202	211
Financial liabilities	**801**	**1,996**
Provision for loan commitments	284	984
Payables to suppliers	269	311
Payables on preference shares	200	150
Payables to employees	12	10
Unsettled transit accounts	3	314
Accrued commissions on documentary operations, operations with plastic cards and cheques	-	35
Other	33	192
Total other liabilities	**2,196**	**3,353**

Movements in the allowance for loan commitments for the years ended 31 December 2011 and 2010 are as follows:

In millions of Belarusian Rubles	**2011**	**2010**
Allowance for loan commitments		
Balance as at 1 January	984	177
(Recovery)/charge for the year	(433)	854
Inflation effect	(267)	(47)
Balance as at 31 December	**284**	**984**

22. Equity

As at 31 December 2011 and 2010 issued and paid share capital consisted of 64,157,307 shares.

As at 31 December 2011 and 2010 the share capital was represented as follows:

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Number of ordinary shares	64,157,307	64,157,307
Face value of 1 share, BYR	785	785
Face value of ordinary shares	50,364	50,364
Effect of inflation	134,772	134,772
Total share capital	**185,136**	**185,136**

All ordinary shares are fully paid, carry one vote and have the right to receive dividends and participate in net assets. All ordinary shares rank equally with regard to the Bank's residual assets. Preference shares have no voting rights and give the right to participate in net assets.

During the years 2011 and 2010 the Bank declared and paid dividends on preference share exceeding minimum compulsory dividend in the amount of BYR 2 million and BYR 116 million, respectively.

The Bank's shareholders as at 31 December 2011 and 2010 were as follows:

	31 December 2011	**31 December 2010**
	% of total share capital	**% of total share capital**
EBRD	25.00	25.00
LLC "Dikris"	23.97	23.97
Tsybulin V. A.	18.08	18.08
DEG	14.99	14.99
JLLC "Speedster"	10.60	10.60
Tsybulina E. A.	4.57	4.57
LLC "Fenoks"	1.56	1.56
Other	1.23	1.23
Total	**100.00**	**100.00**

In 2010 the Bank issued shares of BYR 44,850 million, which were acquired at par value by EBRD, DEG, JLLC "Speedster" and Tsybulin V. A.

In accordance with Belarusian legislation the Bank distributes its profits in the form of dividends or transfers profits to the reserves based on the accounting data prepared in accordance with Belarusian accounting legislation. As at 31 December 2011 and 2010 retained earnings of the Bank according to the national accounting rules amounted to BYR 42,040 million and BYR 25,523 million, respectively.

As at 31 December 2011 and 2010 the reserve fund of BYR 3,521 million was recorded in equity under national accounting legislation. The reserve fund represents amounts reserved in accordance with the legislation of the Republic of Belarus to cover losses on the Bank operations and to increase share capital and are not subject to distribution to the shareholders. The size of the fund shall amount to not less than 5% of share capital in accordance with the requirements of the National Bank of the Republic of Belarus effective in 2011 and 2010, respectively.

23. Interest income and expense

In millions of Belarusian Rubles	**2011**	**2010 (as restated, Note 4)**
Interest income		
Interest income on loans and receivables	148,615	114,969
Due from banks	*12,571*	*4,793*
Loans to customers	*136,044*	*110,176*
Interest income on financial assets available for sale	1,114	2,095
Total interest income	**149,729**	**117,064**
Interest expense		
Interest expenses on financial liabilities at amortised cost	(69,581)	(27,108)
Due to other banks	*(11,902)*	*(2,222)*
Customer accounts	*(50,755)*	*(21,935)*
Debt securities issued	*(3,480)*	*(1,361)*
Subordinated debt	*(3,444)*	*(1,590)*
Interest expenses on preference shares	(817)	(632)
Other interest expenses	(15)	-
Total interest expense	**(70,413)**	**(27,740)**
Net interest income	**79,316**	**89,324**

24. Fee and commission income and expenses

In millions of Belarusian Rubles	**2011**	**2010**
Fee and commission income		
Settlement and cash transactions fees	10,508	7,013
Foreign exchange fees	2,636	2,120
Agent fee	824	1,451
Collateral verification fee income	583	1,657
Other	687	578
Total fee and commission income	**15,238**	**12,819**
Fee and commission expense		
Foreign exchange fees	(1,790)	(165)
Plastic cards transactions fees	(877)	(570)
Cash and other assets transactions fees	(380)	(21)
Settlement transactions fees	(288)	(314)
Other	(133)	(149)
Total fee and commission expenses	**(3,468)**	**(1,219)**
Net fee and commission income	**11,770**	**11,600**

25. Net (loss)/gain on foreign exchange operations

In millions of Belarusian Rubles	**2011**	**2010 (as restated, Note 4)**
Net loss from revaluation of assets and liabilities	(362,009)	(1,675)
Net (loss)/gain on foreign exchange operations	(35,384)	15,052
Net (loss)/gain on foreign exchange operations	**(397,393)**	**13,377**

26. Net other income

In millions of Belarusian Rubles	**2011**	**2010 (as restated, Note 4)**
Change in fair value of investment property	4,005	-
Repayment of loans earlier written off	3,659	1,904
Penalties and fines received	3,285	4,840
Rental income from operating lease	267	18
Loss on sale of property and equipment	(253)	(140)
Other income	241	450
Total net other income	**11,204**	**7,072**

27. Operating expenses

In millions of Belarusian Rubles	**2011**	**2010**
Staff costs	(20,145)	(21,749)
Rental expenses	(13,231)	(12,275)
Payroll related taxes	(6,468)	(6,916)
Depreciation and amortisation	(2,611)	(2,439)
Software expenses	(2,390)	(2,391)
Payments to the Individual Deposits Security Fund	(2,187)	(897)
Repairs and maintenance	(2,175)	(2,147)
Communications and information services	(2,130)	(2,529)
Advertising and marketing	(1,562)	(1,225)
Security expenses	(1,118)	(1,061)
Delivery and encashment services	(869)	(902)
Taxes other than income tax	(650)	(1,043)
Professional services (consulting, audit, legal, etc.)	(570)	(1,813)
Transport expenses	(502)	(406)
Insurance	(429)	(338)
Recovery of write down/(write down) of other non-financial assets	2,937	(2,937)
Other	(2,495)	(2,275)
Total operating expenses	**(56,595)**	**(63,343)**

28. Cash and cash equivalents

For cash flow statement purposes cash and cash equivalents are presented as following:

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Cash in hand and balances with the National Bank of the Republic of Belarus	102,966	84,695
Nostro accounts	47,339	22,580
Loans and deposits with other banks with original maturity less than 90 days	6,740	-
Less obligatory reserve deposit with the National Bank of the Republic of Belarus	(3,282)	(1,757)
Total cash and cash equivalents	**153,763**	**105,518**

29. Contingencies

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

Taxation. As legislation of the Republic of Belarus may allow more than one interpretation there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest.

The management of the Bank believes that they have accrued all tax amounts due and therefore no provision has been made in the financial statements.

Operating lease commitments. Below the future minimum non-cancellable operating lease payments under agreements where the Bank is a lessee are presented:

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Less than 1 year	12,434	10,447
From 1 to 5 years	42,040	30,887
More than 5 years	1,073	7,626
Total operating lease commitments	**55,547**	**48,960**

Loan commitments. In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank's maximum exposure to credit risk under contingent liabilities and commitments for unused credit lines, in the event of non-performance by the other party provided that all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for financial instruments presented in the statement of financial position.

Loan commitments of the Bank were as following:

In millions of Belarusian Rubles `	**31 December 2011**	**31 December 2010**
Unused credit lines	33,245	33,714
Guarantees issued	4,377	6,388
Uncovered letters of credit	338	-
Covered letters of credit	237	5,269
Less allowance for impairment	(284)	(984)
Total loan commitments	**37,913**	**44,387**

Movement in allowance on loan commitments is presented in Note 21.

30. Capital management

The Bank manages its capital to ensure compliance with prudential requirements and the ability to continue as a going concern while providing a return to stakeholders through the optimisation of the debt and equity balance.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with a quantified assessment of the risks it undertakes (risk-weighted assets). The Bank's management assesses the amount of capital required to achieve the strategic aims of the Bank and providing the necessary assets growth for the planned perspective, as well as the optimum profitability to capital adequacy ratio taking into accounts requirements of the shareholders, Bank's partners and regulating authorities. The Bank's management considers weighted average cost of capital and risks associated with each class of capital, and balances its overall capital structure through the attraction of additional and redemption of existing debt.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (8%) and tier 1 capital (4%) to risk weighted assets.

The table below summarizes regulatory capital resources for capital adequacy purposes:

In millions of Belarusian Rubles	**31 December 2011**	**31 December2010**
Tier 1 capital		
Share capital	185,136	185,136
Treasury shares	(2)	(2)
(Accumulated loss)/ retained earnings	(84,090)	13,330
Total tier 1 capital	**101,044**	**198,464**
Tier 2 capital		
Subordinated debt	36,112	34,272
Additional capital contribution	21,525	21,525
Preference shares	5,406	11,281
Total tier 2 capital	**63,043**	**67,078**
Total capital	**164,087**	**265,542**
Total risk weighted assets	**677,246**	**591,895**
Capital adequacy ratios		
Tier 1 capital	**14.9%**	**33.5%**
Total capital	**24.2%**	**44.9%**

Ratios are calculated in accordance with the principles stipulated by the Basel Accord with application of respective risk assessment for assets less impairment allowance and provisions for loan commitments.

As of 31 December 2011 and 2010 the Bank included in the computation of total capital for capital adequacy purposes the subordinated debt with original maturity exceeding 5 years (Note 17) and preference shares (Note 18) with undefined maturity and fixed dividend. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors, and default of the Bank in payment of dividends on preference shares does not cause the Bank's bankruptcy or liquidation.

According to the requirement of the National Bank the minimum size of regulatory capital calculated on the basis of accounting records prepared in accordance with Belarusian legislation for banks attracting deposits from individuals and maintaing current accounts of individuals is not less than EUR 25 million. As a result of significant national currency devaluation in 2011 the Bank did not comply with the mentioned requirement and the National Bank provided the Bank with a grace period till 1 January 2013 in order to increase regulatory capital to the required level. Non-complience with the mentioned requirement may cause suspencion of the licence for attracting deposits from individuals not being individual enterpreneurs and/or opening and maintaining current accounts of such individuals.

In order to recover the regulatory capital to the required level the Bank's management negotiates with the shareholders in regard to share capital increase from the following sources:

- Non-cash contribution to the share capital in the form of real estate owned by the main individual shareholder of the Bank;
- Equal cash contributions from the shareholders DEG and EBRD in the amount necessary to recover the broken normative.

31. Risk management

Bank manages its financial risks (credit, liquidity, geographical, market including currency and interest rate risk), as well as operational and legal risks.

The Board of Directors controls the proper functioning of the risk management system. The Management Board is responsible for evaluation of the effectiveness of the risk management system. The Finance and Credit Committees monitor and analyse the level of risks.

The Control and Risk Management Department is charged with responsibilities to organize an effective risk management system, control of timely detection, identification, measurement, monitoring and limitation of bank risks level. This department monitors compliance with procedures for managing each type of risk. In order to manage and control critical situations which may have unobjectionable consequences for the Bank, the Risk Manager performs stress-testing, which involves assessing effects of external and internal factors of the related risk on the Bank's activities.

The Internal Audit Department is charged with responsibilities to implement audit functions via organization of the overall system of internal controls in the Bank, as well as control of compliance with procedures for managing each of the major types of risks. Other departments of the Bank carry out the current management of banking risks within their authorities.

Credit risk. The Bank assumes credit risk, i.e. the risk that one party to a financial instrument will fail to settle an obligation, or will discharge untimely or not in full amount, and cause the other party to incur a financial loss. The purpose of credit risk management is to guarantee the maximal safety of assets by decreasing possible losses.

Credit risk regulation is performed by using the following procedures:

- separation of powers and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within credit risk management;
- organisation of adequate and relevant to the Bank's interests system of crediting legal entities and individual entrepreneurs, private individuals, the system of fixing limits on banks-counterparties;
- organization of a system to ensure fair evaluation of collateral on credit operations;
- organization of independent primary and secondary examinations of lending projects and drafts of limits on banks-counterparties;
- organization of effective work with bad debts;
- implementation of quality and timely analysis of the loan portfolio state and dynamics, safe functioning standards which characterize the level of credit risk, including sector analysis and analysis of credit portfolio concentration, fixing limits on sectors with high credit risk, as well as creating a system of quick and adequate response aimed at minimizing risk;
- development of the Bank's action plan in case of force majeure related to credit risk.

Detection, identification and assessment of credit risk level is performed via primary and secondary examinations of lending projects (drafts of limits on bank-counterparty), thus achieving the resolution of the conflict of interests in decision-making process.

Primary examination (analysis, evaluation) of the bank-counterparty's financial position and development of the limit for conducting active transactions with the bank-counterparty is performed by the economic agency (experts on banks) on the basis of assessment of the financial position and ability to promptly and fully recover funds transferred to it. Based on the analysis carried out a draft limit on active operations with the bank-counterparty is developed. Secondary examination is performed by risk manager when considering and monitoring the limit for bank-counterparty. Acceptable level of credit risk with respect to a borrower is the limit on loan amount established by the decision of the Credit Committee of the Bank.

For prevention of credit risk increase the Bank regularly performs monitoring of the risk by borrowers, by loan agreements and by loan portfolio as a whole through monthly analysis of respective ratios. The Bank controls credit risk by setting limits by one borrower or a group of related borrowers and by products. The Bank forecasts fluctuations in exposure to credit risk by undertaking periodic stress-testing, which is based on assessment of potential effect of internal and external credit risk factors. The Bank creates a model where all or the majority of similar borrowers, grouped by industry, type of ownership and other criteria, experience a default, develops different scenarios of impact of such default on exposure to credit risk, forecasts the quality of loan portfolio and regulatory requirements related to credit risk. The results of stress-testing are submitted to the Finance Committee of the Bank for taking appropriate actions to minimize credit risk.

Credit risk management performed by respective departments includes regular analysis of the ability of existing and potential borrowers to repay principle and interest and, if necessary, by obtaining collateral and guarantees from companies and individuals. The Bank analyses loans by maturities and subsequently monitors overdue balances. The respective departments submit the information on overdue loans as presented in Note 8 to the management. Activities that give rise to credit risk and the associated maximum exposure to credit risk include:

- issuing loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets as presented in the statement of financial position (Note 7 and Note 8);

- entering into derivative contracts, e.g. foreign exchange contracts. The maximum exposure to credit risk at the end of the reporting period will equal the carrying amount resented in the statement of financial position (Note 6);
- issuing financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the Bank could have to pay if the guarantee is called on, and is presented in Note 29;
- issuing an uncancellable loan commitment or loan commitment cancelable only as a result of material adverse change. If the issuer cannot settle the loan commitment in cash or using another financial instrument, the maximum credit exposure is the full amount of the commitment as presented in Note 29.

The credit risk on financial instruments not recognised in the statement of financial position is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recognised in its statement of financial position, i.e. the one based on the procedures for approving loans issuance, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of contingencies not recognised in the statement of financial position as longer term commitments generally have a greater degree of credit risk than short-term commitments.

In order to minimize credit risk the Bank applies methods of the credit portfolio diversification by sector, type of collateral, credit products, forms of cash disbursement, types of transactions, currency and maturity.

Country risk. The country risk is a risk that the Bank incurs losses as a result of factors, which are not dependent on the financial position of the counterparty of the Bank, e.g. non-compliance of agreements with legislation of foreign countries, non-fulfillment of obligations by counterparties due to economic, political, social and other changes influencing their activities.

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2011 is presented as follows:

In millions of Belarusian Rubles	**Belarus**	**OECD countries**	**Other countries**	**Total**
Assets				
Cash and balances with the National Bank of the Republic of Belarus	102,966	-	-	102,966
Financial assets at fair value through profit or loss	274,860	-	-	274,860
Due from banks	7,954	43,772	2,946	54,672
Loans to customers	344,671	-	-	344,671
Other financial assets	1,801	-	-	1,801
Total financial assets	**732,252**	**43,772**	**2,946**	**778,970**
Liabilities				
Financial liabilities at fair value through profit or loss	12,705	-	-	12,705
Due to other banks	109,615	11,009	-	120,624
Customer accounts	463,640	429	11,903	475,972
Debt securities issued	40,387	-	-	40,387
Subordinated debt	-	44,785	-	44,785
Preference shares	5,406	-	-	5,406
Provision for unused vacation	402	-	-	402
Other financial liabilities	796	5	-	801
Total financial liabilities	**632,951**	**56,228**	**11,903**	**701,082**
Net position	**99,301**	**(12,456)**	**(8,957)**	

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2010 is presented as follows:

In millions of Belarusian Rubles	**Belarus**	**OECD countries**	**Other countries**	**Total**
Assets				
Cash and balances with National Bank of the Republic of Belarus	84,695	-	-	84,695
Financial assets at fair value through profit or loss	26,252	-	-	26,252
Due from banks	23,101	13,226	9,011	45,338
Loans to customers	503,724	-	-	503,724
Financial assets available for sale	30,153	-	-	30,153
Other financial assets	1,936	-	-	1,936
Total financial assets	**669,861**	**13,226**	**9,011**	**692,098**
Liabilities				
Financial liabilities at fair value through profit or loss	3,733	-	-	3,733
Due to other banks	46,130	13,780	-	59,910
Customer accounts	336,361	503	4,380	341,244
Debt securities issued	41,436	-	-	41,436
Subordinated debt	-	34,272	-	34,272
Preference shares	11,281	-	-	11,281
Provision for unused vacation	763	-	-	763
Other financial liabilities	1,984	12	-	1,996
Total financial liabilities	**441,688**	**48,567**	**4,380**	**494,635**
Net position	**228,173**	**(35,341)**	**4,631**	

Liquidity risk. Liquidity risk – is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The purpose of the liquidity risk management is the maintanance of the optimal balanced financial assets and financial liabilities structure by implementing the following tasks:

- separation of duties and responsibilities between authorised and executive bodies, committees, officials and departaments of the Bank within liquidity risk management;
- organisation of adequate and relevant to the Bank's interests system of financial assets and liabilities management;
- organization of quality and timely monitoring and analysis of the current state of liquidity, safe operation standards, characterizing liquidity risk level, structure and dynamics of the resource base and financial investments, liquidity gaps;
- organization of stress-testing and early warning systems to identify the causes and factors affecting the change in the liquidity risk, and forecasting the future liquidity trends;
- creation of the system of quick and adequate response aimed at minimizing the liquidity risk, development of action plans of the Bank in case of contingencies associated with increase in liquidity risk.

The Bank aims to maintain the stable financing base comprising mainly due to other banks, including long-term loans from EBRD, current accounts and deposits of corporate customers and individuals, a long-term subordinated debt from EBRD and DEG, and invests funds in diversified portfolios of liquid assets in order to have possibility to meet unforeseen liquidity requirements immediately without delays.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of the Republic of Belarus. These ratios include:

- *Quick liquidity ratio* is calculated as the ratio of the demand assets to demand and overdue liabilities (minimum 20%).
- *Current liquidity ratio* is calculated as the ratio of assets with maturities of less than 30 days, including demand assets, to liabilities with the maturities of less than 30 days, including demand liabilities (minimum 70%).
- *Short-term liquidity ratio* is calculated as the ratio of assets with maturities of less than 1year to liabilities with the maturities of less than 1 year (minimum 1);
- *Liquid to total assets ratio* is calculated as the ratio of demand assets and assets with maturity of less than 30 days to total assets (minimum 20%).

The tables below represent the remaining contractual maturity of financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) and inflows/outflows on derivative financial instruments.

The table below represents analysis of financial by contractual maturities as at 31 December 2011:

In millions of Belarusian Rubles	**Effective interest rate, %**	**Up to 1 month**	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**Total**
Non-derivative interest bearing financial liabilities									
Due to other banks	3.3 - 5.7	88,701	2,759	-	-	-	-	-	91,460
Customer accounts	6.3 - 53.6	128,582	130,063	61,201	97,791	66,184	-	-	483,821
Debt securities issued	8.0	10,020	30,859	-	-	-	-	-	40,879
Subordinated debt	7.7 - 8.0	-	-	1,742	1,761	55,039	41,655	-	100,197
Preference shares	14.8	-	-	-	-	-	-	5,406	5,406
Total expected future cash outflows from non-derivative interest bearing financial liabilities		227,303	163,681	62,943	99,552	121,223	41,655	5,406	721,763
Non-derivative non-interest bearing financial liabilities									
Due to other banks		29,363	-	-	-	-	-	-	29,363
Customer accounts		19,419	17	-	302	-	-	-	19,738
Provision for unused vacation		402	-	-	-	-	-	-	402
Other financial liabilities		435	347	1	15	3	-	-	801
Loan commitments		35,265	2,065	-	-	346	-	-	37,676
Total expected future cash flows from non-derivative financial liabilities		312,187	166,110	62,944	99,869	121,572	41,655	5,406	809,743
Derivative financial liabilities									
Outflow		116,116	-	-	4,835	152,675	48,495	-	322,121
Inflow		(116,564)	-	-	(10,800)	(359,806)	(126,807)	-	(613,977)
Total expected future cash outflows from financial liabilities		**311,739**	**166,110**	**62,944**	**93,904**	**(85,559)**	**(36,657)**	**5,406**	**517,887**

The table below represents analysis of financial liabilities as described above by contractual maturities as at 31 December 2010:

In millions of Belarusian Rubles	**Effective interest rate, %**	**Up to 1 month**	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**Total**
Non-derivative interest bearing financial liabilities									
Due to other banks	1.6 – 4.6	35,800	24,098	-	-	-	-	-	59,898
Customer accounts	2.9 - 23.0	116,737	35,180	33,352	52,301	103,228	-	-	340,798
Debt securities issued	7.5	16,116	25,752	-	-	-	-		41,868
Subordinated debt	7.5 – 7.7	-	-	1,035	1,269	10,077	65,371	-	77,752
Preference shares	5.0	-	-	-	-	-	-	11,281	11,281
Total expected future cash outflows from non-derivative interest bearing financial liabilities		168,653	85,030	34,387	53,570	113,305	65,371	11,281	531,597
Non-derivative non-interest bearing financial liabilities									
Due to other banks		175	-	-	-	-	-	-	175
Customer accounts		13,218	4,441	1,350	-	-	-	-	19,009
Provision for unused vacation		763	-	-	-	-	-	-	763
Other financial liabilities		844	1,055	10	52	35	-		1,996
Loan commitments		33,900	4,068	306	710	134	-		39,118
Total expected future cash flows from non-derivative financial liabilities		217,553	94,594	36,053	54,332	113,474	65,371	11,281	592,658
Derivative financial liabilities									
Outflow		40,694	-	-	13,921	196,693	127,878	-	379,186
Inflow		(41,053)	-	-	(12,521)	(186,123)	(120,520)	-	(360,217)
Total expected future cash outflows from financial liabilities		**217,194**	**94,594**	**36,053**	**55,732**	**124,044**	**72,729**	**11,281**	**611,627**

The Bank does not apply the above analysis by maturities based on undiscounted cash outflows on a constant basis. Instead, the Bank controls maturity terms as described in the tables below:

In millions of Belarusian Rubles	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Overdue**	**Maturity undefined**	**Total 31 December 2011**
Assets									
Interest bearing assets									
Due from banks	28,557	3,022	-	-	-	-	-	-	31,579
Loans to customers	10,023	41,569	26,771	37,429	222,086	1,075	5,718	-	344,671
Total interest bearing assets	**38,580**	**44,591**	**26,771**	**37,429**	**222,086**	**1,075**	**5,718**	**-**	**376,250**
Non-interest bearing assets									
Cash and balances with the National Bank of the Republic of Belarus	99,684	-	-	-	-	-	-	3,282	102,966
Financial assets at fair value through profit or loss	-	-	-	6,964	203,388	64,508	-	-	274,860
Due from banks	22,500	-	-	-	-	-	-	593	23,093
Other assets	141	8	-	-	-	-	1,652	-	1,801
Total financial assets	**160,905**	**44,599**	**26,771**	**44,393**	**425,474**	**65,583**	**7,370**	**3,875**	**778,970**
Liabilities									
Interest bearing liabilities									
Due to other banks	81,364	2,739	-	3,579	3,579	-	-	-	91,261
Customer accounts	122,448	122,417	55,051	91,835	64,483	-	-	-	456,234
Debt securities issued	10,020	30,367	-	-	-	-	-	-	40,387
Subordinated debt	-	-	163	-	43,200	1,422	-	-	44,785
Preference shares	-	-	-	-	-	-	-	5,406	5,406
Total interest bearing liabilities	**213,832**	**155,523**	**55,214**	**95,414**	**111,262**	**1,422**	**-**	**5,406**	**638,073**
Non-interest bearing liabilities									
Financial liabilities at fair value through profit or loss	-	-	-	-	12,705	-	-	-	12,705
Due to other banks	29,363	-	-	-	-		-	-	29,363
Customer accounts	19,419	17	-	302	-	-	-	-	19,738
Provision for unused vacation	402	-	-	-	-	-	-	-	402
Other financial liabilities	435	347	1	15	3	-	-	-	801
Total financial liabilities	**263,451**	**155,887**	**55,215**	**95,731**	**123,970**	**1,422**	**0**	**5,406**	**701,082**
Liquidity gap	(102,546)	(111,288)	(28,444)	(51,338)	301,504	64,161			
Interest sensitivity gap	(175,252)	(110,932)	(28,443)	(57,985)	110,824	(347)			
Cumulative interest sensitivity gap	(175,252)	(286,184)	(314,627)	(372,612)	(261,788)	(262,135)			
Cumulative interest sensitivity gap as a percentage of total financial assets	(22%)	(37%)	(40%)	(48%)	(34%)	(34%)			

In millions of Belarusian Rubles	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Overdue**	**Maturity undefined**	**Total 31 December 2010**
Assets									
Interest bearing assets									
Due from banks	17,133	-	22,314	-	-	-	-	-	39,447
Loans to customers	18,633	58,328	59,455	67,758	287,617	3,521	8,412	-	503,724
Financial assets available for sale	-	-	30,153	-	-	-	-	-	30,153
Total interest bearing assets	**35,766**	**58,328**	**111,922**	**67,758**	**287,617**	**3,521**	**8,412**	**-**	**573,324**
Non-interest bearing assets									
Cash and balances with the National Bank of the Republic of Belarus	82,938	-	-	-	-	-	-	1,757	84,695
Financial assets at fair value through profit or loss	172	-	-	-	12,317	13,763	-	-	26,252
Due from banks	5,447	-	-	-	-	-	-	444	5,891
Other financial assets	116	-	-	-	-	-	1,820	-	1,936
Total financial assets	**124,439**	**58,328**	**111,922**	**67,758**	**299,934**	**17,284**	**10,232**	**2,201**	**692,098**
Liabilities									
Interest bearing liabilities									
Due to other banks	24,960	24,042	-	2,683	8,050	-	-	-	59,735
Customer accounts	114,466	31,676	28,813	46,873	100,407	-	-	-	322,235
Debt securities issued	-	305	-	41,131	-	-	-	-	41,436
Subordinated debt	-	-	117	-	-	34,155	-	-	34,272
Preference shares	-	-	-	-	-	-	-	11,281	11,281
Total interest bearing liabilities	**139,426**	**56,023**	**28,930**	**90,687**	**108,457**	**34,155**	**-**	**11,281**	**468,959**
Non-interest bearing liabilities									
Financial liabilities at fair value through profit or loss	-	-	-	1,068	2,665	-	-	-	3,733
Due to other banks	175	-	-	-	-	-	-	-	175
Customer accounts	13,218	4,441	1,350	-	-	-	-	-	19,009
Provision for unused vacation	763	-	-	-	-	-	-	-	763
Other financial liabilities	1,808	150	4	-	34	-	-	-	1,996
Total financial liabilities	**155,390**	**60,614**	**30,284**	**91,755**	**111,156**	**34,155**	**-**	**11,280**	**494,635**
Liquidity gap	(41,683)	(2,287)	81,638	(21,314)	196,828	(16,871)			
Interest sensitivity gap	(103,660)	2,305	82,992	(22,929)	179,160	(30,634)			
Cumulative interest sensitivity gap	(103,661)	(101,356)	(18,363)	(41,292)	137,868	107,234			
Cumulative interest sensitivity gap as a percentage of total financial assets	(15%)	(15%)	(3%)	(6%)	20%	15%			

The Bank's management believes that coincidence and/or controlled non-coincidence of terms of placement and maturity and interest rates of assets and liabilities is a fundamental factor for successful Bank management. As a rule, there is no full coincidence of the stated positions, as operations often have undefined maturity and different nature. Non-coincidence of these positions potentially raises profitability and at the same time the risk of losses. Maturity of assets and liabilities and a possibility to substitute interest liabilities at an acceptable cost as they mature is an important factor in assessment of Bank's liquidity risks in case of changes of interest rates and currency exchange rates.

As at 31 December 2011 and 2010 the Bank had a breach of a financial covenant (liquid assets to total assets ratio) set in the long-term loan agreement with EBRD. During 2011, 2010 and as at the date of these financial statements, the Bank received no notice from the lender for early repayment of the loan. The loan in the amount of BYR 11,009 million at 31 December 2011 and BYR 13,780 million at 31 December 2010 was shown as payable on demand within 1 month in contractual maturity of financial liabilties undiscounted cash flows analysis.

The management of the Bank also believes that notwithstanding the sufficient share of customer account balances, which are demand, the diversification of such funds according to the quantity and type of customers as well as the previous experience of the Bank evidence that these funds form a long-term and stable source of finance.

Market risk. Market risk is related to open interest rate, currency positions, positions on debt and equity instruments, which are subject to general and specific market changes.

The identification and assessment of market risk is performed regularly and is based on the information received from respective departments for the preparation of reports to the National Bank.

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

Currency risk management is carried out using the following methods:

- organisation of a system for tracking the status and dynamics of the open foreign currency position - total and by types of currencies, as well as of the first response system aimed at minimizing foreign currency risk;
- implementation of the limit policy;
- assessment of the currency risk level and the currency risk management quality.

The Bank determines limits by currencies and the aggregated currancy position limits. Limits are set and monitored for compliance at the end of each day as well as during the day. Treasury Department controls the quntitive and qualitative characteristics of net open currency position based on the accounting data for statement of financial position and off balance sheet assets and liabilities. The algorithm for calculating the open foreign currency position of the Bank and the inclusion of the currency risk in the calculation of capital adequacy is determined in accordance with the requirements of the National Bank of the Republic of Belarus.

As at 31 December 2011 and 2010 the Bank had a subordinated debt provided by the shareholder in USD (Note 17). As the subordinated debt was received under interest rate below the market rate, the difference between its fair value and contractual value was recognised as additional capital contribution with the subordinated debt being subsequently measued at amortised cost. The difference between the amount of subordinated debt presented in the statement of financial position and its contractual value as at 31 December 2011 and 2010 is included as adjustment into calculation of net open currency position

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2011 is presented in the table below:

In millions of Belarusian Rubles	**Belarusian Ruble**	**US Dollar**	**Euro**	**Russian Ruble**	**Other currencies**	**Total**
Assets						
Cash and balances with the National Bank of the Republic of Belarus	81,935	6,646	11,080	3,262	43	102,966
Financial assets at fair value through profit or loss	274,860	-	-	-	-	274,860
Due from banks	6,740	43,119	2,698	2,098	17	54,672
Loans to customers	311,690	9,278	23,703	-	-	344,671
Other financial assets	1,473	148	180	-	-	1,801
Total financial assets	**676,698**	**59,191**	**37,661**	**5,360**	**60**	**778,970**
Liabilities						
Financial liabilities at fair value through profit or loss	12,705	-	-	-	-	12,705
Due to other banks	-	86,358	34,260	6	-	120,624
Customer accounts	183,553	203,449	54,661	34,309	-	475,972
Debt securities issued	-	40,387	-	-	-	40,387
Subordinated debt	-	1,422	43,363	-	-	44,785
Preference shares	5,406	-	-	-	-	5,406
Provision for unused vacation	402	-	-	-	-	402
Other financial liabilities	526	126	5	144	-	801
Total financial liabilities	**202,592**	**331,742**	**132,289**	**34,459**	**-**	**701,082**
Net open currency position	**474,106**	**(272,551)**	**(94,628)**	**(29,099)**	**60**	**77,888**
Adjustments for subordinated debt	**-**	**(32,567)**	**-**	**-**	**-**	**(32,567)**
Net open currency position after adjustments	**474,106**	**(305,118)**	**(94,628)**	**(29,099)**	**60**	**45,321**

Effect of foreign currency derivatives and spot foreign exchange transactions is presented as follows:

In millions of Belarusian Rubles	**Belarusian Ruble**	**US Dollar**	**Euro**	**Russian Ruble**	**Other currencies**	**Total**
Claims on derivative contracts	54,317	430,789	99,900	28,971	-	613,977
Obligations on derivative contracts	(187,551)	(127,010)	(7,560)	-	-	(322,121)
Net position on derivatives	**(133,234)**	**303,779**	**92,340**	**28,971**	**-**	**291,856**
Total net open currency position	**340,872**	**(1,339)**	**(2,288)**	**(128)**	**60**	**337,177**

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2010 is presented in the table below:

In millions of Belarusian Rubles	**Belarusian Ruble**	**US Dollar**	**Euro**	**Russian Ruble**	**Other currencies**	**Total**
Assets						
Cash and balances with the National Bank of the Republic of Belarus	63,720	11,037	7,623	2,273	42	84,695
Financial assets at fair value through profit or loss	26,252	-	-	-	-	26,252
Due from banks	22,314	9,536	5,167	8,308	13	45,338
Loans to customers	449,105	27,882	22,876	3,861	-	503,724
Financial assets available for sale assets	30,153	-	-	-	-	30,153
Other financial assets	1,756	84	96	-	-	1,936
Total financial assets	**593,300**	**48,539**	**35,762**	**14,442**	**55**	**692,098**
Liabilities						
Financial liabilities at fair value through profit or loss	3,733	-	-	-	-	3,733
Due to other banks	-	35,788	24,118	4	-	59,910
Customer accounts	160,762	123,901	44,811	11,770	-	341,244
Debt securities issued	-	41,436	-	-	-	41,436
Subordinated debt	-	994	33,278	-	-	34,272
Preference shares	11,281	-	-	-	-	11,281
Provision for unused vacation	763	-	-	-	-	763
Other financial liabilities	982	979	31	4	-	1,996
Total financial liabilities	**177,521**	**203,098**	**102,238**	**11,778**	**-**	**494,635**
Net open currency position	**415,779**	**(154,559)**	**(66,476)**	**2,664**	**55**	**197,463**
Adjustments for subordinated debt	-	(24,364)	-	-	-	(24,364)
Net open currency position after adjustments	**415,779**	**(178,923)**	**(66,476)**	**2,664**	**55**	**173,099**

Effect of foreign currency derivatives and spot foreign exchange transactions is presented as follows:

In millions of Belarusian Rubles	**Belarusian Ruble**	**US Dollars**	**Euro**	**Russian Ruble**	**Other currencies**	**Total**
Claims on derivative contracts	56,126	258,495	45,596	-	-	360,217
Obligations on derivative contracts	(324,656)	(54,530)	-	-	-	(379,186)
Net position on derivatives	**(268,530)**	**203,965**	**45,596**	**-**	**-**	**(18,969)**
Claims on foreign exchange transactions	-	417	22,807	-	-	23,224
Obligations on foreign exchange transactions	-	(22,803)	(15)	-	-	(22,818)
Net position on foreign exchange	**-**	**(22,386)**	**22,792**	**-**	**-**	**406**
Total net open currency position	**147,249**	**2,656**	**1,912**	**2,664**	**55**	**154,536**

The Bank granted a significant part of loans in foreign currencies. Depending on the currency of cash flows received by the Bank's borrowers, increase in exchange rates of foreign currencies may have a negative impact on the ability of borrowers to repay loans resulting, consequently, in higher probability of default on loans.

The following table details the Bank's sensitivity to a 30% increase and 10% decrease in the main convertible currencies against the BYR. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 30% and 10% change in foreign currency rates:

	2011		**2010**	
In millions of Belarusian Rubles	**Effect on profit before income tax expense**	**Effect on comprehensive income**	**Effect on profit before income tax expense**	**Effect on comprehensive income**
Strengthening of US Dollar by 30%	(402)	(330)	797	606
Weakening of US Dollar by 10%	134	110	(266)	(202)
Strengthening of Euro by 30%	(686)	(563)	574	436
Weakening of Euro by 10%	229	188	(191)	(145)
Strengthening of RUB by 30%	(39)	(32)	799	607
Weakening of RUB by 10%	13	11	(266)	(202)
Strengthening of other currencies by 30%	18	15	17	13
Weakening of other currencies by 10%	(6)	(5)	(6)	(5)

The above tables demonstrate the effect of a change in a key assumption while the other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Interest rate risk. The Bank is exposed to the risk of fluctuations of market interest rates and their influence on its financial position and cash flows. Such fluctuations may result in increase of interest margin, but in case of unexpected changes in interest rates the interest margin can be also decreased or generate losses.

The Bank is subject to interest rate risk mainly due to loan granting at fixed interest rates in amounts and for the periods, which differ from the amounts and periods of fund raising at floating interest rates. In practice fixed interest rates, as a rule, are set for a short period. Moreover, interest rates, fixed in agreements both for assets and liabilities are often reviewed on the basis of mutual agreement in accordance with a current market situation.

Detection, identification and evaluation of interest rate risk are performed monthly by calculating the parameters of interest policy and comparing their values with the parameters established in the process of elaboration and approval of the annual budget of the Bank (projected statement of financial position and financial plan of the Bank). The structure of interest policy parameters of the Bank includes the return on financial assets, the value of financial liabilities, interest spread, interest margin, the gap (according to maturity) between financial assets and financial liabilities sensitive to changes in interest rates, and others.

In the process of ongoing monitoring the Bank also assesses the composition and dynamics of financial assets and financial liabilities, their structure, analysis of interest rates, earlier and currently effective in the money markets of the Republic of Belarus and states residents of which are major counterparties of the Bank, and their impact on changes in the level of interest rate risk.

As at 31 December 2011 and 2010 the balances of financial instruments carried at floating rates were as follows:

In millions of Belarusian Rubles	**31 December 2011**	**31 December 2010**
Assets		
Due from banks	23,714	16,524
Loans to customers	59,041	4,414
Total assets at floating rates	**82,755**	**20,938**
Liabilities		
Due to other banks	11,009	13,780
Customer accounts	21,541	10,491
Subordinated debt	43,363	33,278
Total liabilities at floating rates	**75,913**	**57,549**

The table below represents impact on profit before income tax expense and comprehensive income of change by 100 basis points in floating interest rate instruments as at the reporting date with assumption that all other terms are unchangeable:

	31 December 2011		**31 December 2010**	
In millions of Belarusian Rubles	**Effect on profit before income tax expense**	**Effect on comprehensive income**	**Effect on profit before income tax expense**	**Effect on comprehensive income**
Increase of interest rates by 100 basis points	68	56	(366)	(209)
Decrease of interest rates by 100 basis points	(68)	(56)	366	209

Operational risk. Operational risk refers to potential losses faced by the Bank as a result of non-compliance of internally established procedures and regulations related to banking and other operations with Belarusian legislation or violation of these procedures by personnel, their incompetence and errors, inadequacy or failures of bank systems (including informational), as well as resulting from external factors. Operational risk management consists of ongoing process of identification, assessment, monitoring, control and reporting to the Management. Control over operational risk level is carried out within the framework of internal control system and is based on the principles of multilateral and multilevel internal control, covering all the Bank’s departments.

32. Fair value of financial instruments

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.

Financial instruments measured at fair value are broken down for disclosure purposes into levels based on the observability of inputs as follows:

- Level 1: unadjusted quoted prices for analogous financial instruments.
- Level 2: Valuations for which all significant inputs are observable, either directly (e.g. prices) or indirectly (e.g. derivative from prices). This level includes financial instruments assessed based on quoted prices for similar instruments; or based on quoed prises for similar or analogous instruments in markets that are considered less active; or based on other valuation methods applying input data directly or indirectly observable in markets.
- Level 3: Valuations based on inputs that are unobservable. This level includes all financial instruments assessed based on unobservale input data having a significant impact on the overall fair value measurement.

The Bank's fair value valuation approach for certain significant classes of financial instruments recognized at fair value is as follows:

In millions of Belarusian Rubles

31 December 2011	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	6	-	274,860	-	**274,860**
Financial liabilities at fair value through profit or loss	6	-	12,705	-	**12,705**
31 December 2010	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	6	-	26,252	-	**26,252**
Financial assets available for sale	9	30,153	-	-	**30,153**
Financial liabilities at fair value through profit or loss	6	-	3,733	-	**3,733**

The comparison of the value stated in the statement of financial position and fair value of financial instruments as at 31 December 2011 and 2010 is presented in the table below:

	31 December 2011		31 December 2010	
In millions of Belarusian Rubles	**Amount presented in the statement of financial position**	**Fair value**	**Amount presented in the statement of financial position**	**Fair value**
Financial assets				
Cash and balances with the National Bank of the Republic of Belarus	102,966	102,966	84,695	84,695
Financial assets at fair value through profit or loss	274,860	274,860	26,252	26,252
Due from banks	54,672	54,672	45,338	45,338
Loans to customers	344,671	344,204	503,724	503,724
Financial assets available for sale	-	-	30,153	30,153
Other financial assets	1,801	1,801	1,936	1,936
Total financial assets	**778,970**	**778,503**	**692,098**	**692,098**
Financial liabilities				
Financial liabilities at fair value through profit or loss	12,705	12,705	3,733	3,733
Due to other banks	120,624	120,624	59,910	59,910
Customer accounts	475,972	475,972	341,244	341,244
Debt securities issued	40,387	40,387	41,436	41,436
Subordinated debt	44,785	44,785	34,272	34,272
Preference shares	5,406	5,406	11,281	11,281
Other financial liabilities	801	801	1,996	1,996
Total financial liabilities	**700,397**	**703,157**	**492,888**	**494,452**

The main methods and assumptios applied by the Bank for assessment of fair value of the financial instruments which are not presented at fair value in the statement of financial position.

Instruments with fair value approximating their carrying value presented in the statement of financial position. It is assumed that the fair value of financial assets and liabilities which are highly liquid or have a short maturity (less than 3 months) is approximately equal to their carrying value. This assumption is also applied to demand deposits and current accounts with undefined maturity.

Due from banks, ***due to other banks, customer accounts, subordinated debt***. The fair value of balances placed at floating interest rates equals to their value stated in the statement of financial position. The estimated fair value of balances placed/received under fixed interest rates is based on the calculation of discounted cash flows by applying interest rates of the financial instruments with similar credit risk and maturities. The Bank's management believes that the carrying value of due to and from banks and customer accounts as at 31 December 2011 and 2010 did not significantly differ from their fair value.

As at 31 December 2011 and 2010 the fair value of subordinated debt approximated its carrying value as effective interest rate on subordinated debt approximated market rates.

Loans to customers. Loans to customers are measured less allowance for impairment. The fair value of loans to customers represents the discounted estimated cash flows. In order to determine the fair value, estimated cash flows are discounted at current interest rates. The Bank's management believes that the carrying value of loans to customers as at 31 December 2011 and 2010 did not significantly differ from their fair value. This fact is evidenced by the existing practice to review interest rates to reflect current market conditions. As a result interest on the major part of balances is accrued at the rates that are approximately equal to market interest rates. The exception as at 31 December 2011 is the loan issued to the related party under interest rate below the market rate (Note 34).

33. Operating segments

The Bank operates in two main business segments:

- services to individuals **-** maintenance of current accounts, receipt of deposits, granting of loans, performance of settlements on behalf of individuals, servicing of bank cards, custody services;
- services to legal entities **-** cash management services to enterprises and organizations (both residents and non residents of the Republic of Belarus), attraction of deposits, placing of own debt securities issued, granting of loans and other types of financing, implementation of documentary transactions and transactions with securities.

The Bank also performs foreign exchange operations both with individuals and legal entities but financial result from these operations is not analysed by segments.

Below is the information on operating segments for 2011:

In millions of Belarusian Rubles	**Services to individuals**	**Services to legal entities**	**Other/not distributed**	**Inflation effect**	**Total**
Interest income	79,719	15,837	10,305	43,868	149,729
Interest expense	(17,436)	(25,065)	(9,359)	(18,553)	(70,413)
Net interest income	**62,283**	**(9,228)**	**946**	**25,315**	**79,316**
Fee and commission income	1,506	5,721	898	7,113	15,238
Fee and commission expense	(82)	(45)	(1,999)	(1,342)	(3,468)
Net fee and commission income	**1,424**	**5,676**	**(1,101)**	**5,771**	**11,770**
Net gain on financial instruments at fair value through profit or loss	-	-	277,577	114,150	391,727
Net loss on foreign exchange operations	-	-	(292,154)	(105,239)	(397,393)
Net other income	3,378	1,013	4,137	2,676	11,204
Operating income	**67,085**	**(2,539)**	**(10,595)**	**42,673**	**96,624**
Operating expenses	(1,528)	-	(36,611)	(18,456)	(56,595)
Provision for impairment losses on interest bearing financial assets, net	(8,471)	(10,662)	-	(10,442)	(29,575)
Recovery of provision for loan commitments, net	(5)	191	-	247	433
Provision for unused vacation, net	-	-	(29)	(7)	(36)
The financial result of the segment before income tax and loss on net monetary position	**57,081**	**(13,010)**	**(47,235)**	**14,015**	**10,851**
Recovery of income tax expense	-	-	-	-	4,084
Profit before loss on net monetary position					**14,935**
Loss on net monetary position due to inflation	-	-	-	-	(112,353)
Net loss for the year					**(97,418)**
Segment assets	247,591	97,080	481,018	-	825,689
Segment liabilities	215,554	300,805	186,761	-	703,120
Other segment information					
Loans to customers	247,591	97,080	-	-	344,671
Customer accounts	215,554	260,418	-	-	475,972
Debt securities issued	-	40,387	-	-	40,387

Below is the information on operating segments for 2010:

In millions of Belarusian Rubles	**Services to individuals**	**Services to legal entities**	**Other/not distributed**	**Inflation effect**	**Total**
Interest income	84,490	20,608	6,590	5,376	117,064
Interest expense	(9,650)	(14,059)	(2,775)	(1,256)	(27,740)
Net interest income	**74,840**	**6,549**	**3,815**	**4,120**	**89,324**
Fee and commission income	776	9,189	2,246	608	12,819
Fee and commission expense	-	(85)	(1,080)	(54)	(1,219)
Net fee and commission income	**776**	**9,104**	**1,166**	**554**	**11,600**
Net gain on financial instruments at fair value through profit or loss	-	-	21,520	824	22,344
Net gain on foreign exchange operations	-	-	12,780	597	13,377
Net loss on operations with financial assets available for sale	-	-	(616)	2	(614)
Net other income	6,371	51	326	324	7,072
Operating income	**81,987**	**15,704**	**38,991**	**6,421**	**143,103**
Operating expenses	(859)	-	(59,677)	(2,807)	(63,343)
Provision for impairment losses on interest bearing financial assets, net	(4,545)	(3,627)	-	(372)	(8,544)
Recovery of provision for impairment losses on other financial assets, net	-	-	4	-	4
Recovery of provision for loan commitments, net	(20)	(800)	-	(34)	(854)
Provision for unused vacation, net	-	-	(146)	(51)	(197)
The financial result of the segment before income tax and loss on net monetary position	**76,563**	**11,277**	**(20,828)**	**3,157**	**70,169**
Income tax expense	-	-	-	-	(16,416)
Profit before loss on net monetary position					**53,753**
Loss on net monetary position due to inflation	-	-	-	-	(15,474)
Net profit for the year					**38,279**
Segment assets	369,426	134,298	223,035	-	726,691
Segment liabilities	146,760	235,920	124,022	-	506,702
Other segment information					
Loans to customers	369,426	134,298	-	-	503,724
Customer accounts	146,760	194,484	-	-	341,244
Debt securities issued	-	41,436	-	-	41,436

34. Related parties

In the ordinary course of business the Bank performs transactions with its main shareholders, management of the Bank and other related parties. These transactions include loan granting and attraction, and other transactions. Based on the Bank's policy transactions with related parties are performed on market terms, except for subordinated debt received under favourable terms from EBRD (Note 17).

Below the balances with related parties as at 31 December 2011 are presented:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers			
Balance as at 1 January 2011	6,779	3,134	223
Loan granted	6,377	-	2,543
Loans repaid	(8,053)	(3,094)	(2,329)
Other changes	621	10	-
Inflation effect	(3,201)	(50)	(194)
Accrued interest income as at 31 December 2011	15	-	1
Balance as at 31 December 2011	**2,538**	**-**	**244**
Allowance for impairment of loans to customers			
Balance as at 1 January 2011	-	-	-
Provision	-	-	(3)
Balance as at 31 December 2011	-	-	(3)
Loans to customers as at 1 January 2011 (less allowance for impairment)	**6,779**	**3,134**	**223**
Loans to customers as at 31 December 2011 (less allowance for impairment)	**2,538**	**-**	**241**
Due to other banks			
Balance as at 1 January 2011	13,780	-	-
Loans and advances received	-	-	-
Loans and advances paid	(6,151)	-	-
Other changes	10,552	-	-
Inflation effect	(7,446)	-	-
Accrued interest expenses as at 31 December 2011	274	-	-
Balance as at 31 December 2011	**11,009**	**-**	**-**
Subordinated debt			
Balance as at 1 January 2011	34,272	-	-
Subordinated debt received	-	-	-
Other changes	39,624	-	-
Inflation effect	(29,561)	-	-
Accrued interest expenses as at 31 December 2011	450	-	-
Balance as at 31 December 2011	**44,785**	-	-
Customer accounts			
Balance as at 1 January 2011	1,314	87	840
Balances on customer accounts received	118,581	34,618	6,510
Balances on customer accounts paid	(117,913)	(37,478)	(6,624)
Other changes	1,406	6,355	948
Inflation effect	(1,331)	(1,310)	(742)
Accrued interest expenses as at 31 December 2011	36	-	13
Balance as at 31 December 2011	**2,093**	**2,272**	**945**

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Debt securities issued by the Bank			
Balance as at 1 January 2011	3,595	-	-
Debt securities, redeemed during the year	(3,270)	-	-
Interest expense for the year	(94)	-	-
Other changes	121	-	-
Inflation effect	(352)	-	-
Balance as at 31 December 2011	**-**	**-**	**-**

Below the balances with related parties as at 31 December 2010 are presented:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers			
Balance as at 1 January 2010	8,033	12,117	427
Loan issued	4,692	-	1,776
Loans repaid	(4,746)	(8,819)	(1,968)
Other changes	(318)	534	16
Inflation effect	(905)	(709)	(29)
Accrued interest income as at 31 December 2010	23	11	1
Balance as at 31 December 2010	**6,779**	**3,134**	**223**
Allowance for impairment of loans to customers			
Balance as at 1 January 2010	-	-	(1)
Recovery	-	-	1
Balance as at 31 December 2010	**-**	**-**	**-**
Loans to customers as at 1 January 2010 (less allowance for impairment)	**8,033**	**12,117**	**426**
Loans to customers as at 31 December 2010 (less allowance for impairment)	**6,779**	**3,134**	**223**
Due to other banks			
Balance as at 1 January 2010	20,268	-	-
Loans and advances received	-	-	-
Loans and advances paid	(6,194)	-	-
Other changes	807	-	-
Inflation effect	(1,465)		
Accrued interest expenses as at 31 December 2010	364	-	-
Balance as at 31 December 2010	**13,780**	**-**	**-**
Subordinated debt			
Balance as at 1 January 2010	965	-	-
Subordinated debt received	32,420	-	-
Other changes	2,798	-	-
Inflation effect	(2,168)	-	-
Accrued interest expenses as at 31 December 2010	257	-	-
Balance as at 31 December 2010	**34,272**	**-**	**-**

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Customer accounts			
Balance as at 1 January 2010	1,353	24,620	268
Customer accounts attracted	66,320	14,954	3,661
Customer accounts repaid	(66,291)	(39,394)	(3,050)
Other changes	28	110	9
Inflation effect	(100)	(203)	(49)
Accrued interest expenses as at 31 December 2010	4	-	1
Balance as at 31 December 2010	**1,314**	**87**	**840**
Debt securities issued by the Bank			
Balance as at 1 January 2010	-	-	-
Debt securities, placed during the year	3,569	-	-
Accrued interest expenses as at 31 December 2010	26	-	-
Balance as at 31 December 2010	**3,595**	-	-

The transactions with financial instruments at fair value through profit or loss with related parties as at 31 December 2011 are presented below:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
As at 31 December 2011			
Financial liabilities at fair value through profit or loss			
Swap contracts with foreign currency BYR/USD	12,705	-	-
Nominal amount of purchased currency (BYR)	*7,223*	-	-
Nominal amount of currency to be sold (USD)	*18,453*	-	-

The transactions with financial instruments at fair value through profit or loss with related parties as at 31 December 2010 are presented below:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
As at 31 December 2010			
Financial liabilities at fair value through profit or loss		-	-
Swap contracts with foreign currency BYR/USD	1,792	-	-
Nominal amount of purchased currency (BYR)	*15,073*	-	-
Nominal amount of currency to be sold (USD)	*13,836*	-	-

Below the loan commitments with related parties as at 31 December 2011 and 2010 are presented:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Unused credit lines as at 31 December 2010	-	-	86
Unused credit lines as at 31 December 2011	-	-	75

The income and expenses on transactions with related parties for 2011 are presented below:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	671	24	55
Interest expenses	(4,883)	(505)	(111)
Rental expenses	(568)	(8,927)	-

The income and expenses on transactions with related parties for 2010 are presented below:

In millions of Belarusian Rubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	1,475	1,178	56
Interest expenses	(2,554)	(148)	(31)
Rental expenses	(1,188)	(7,508)	-

The information on compensation to key management personnel for 2011 and 2010 is presented:

In millions of Belarusian Rubles	**2011**	**2010**
Payroll and other short-term personnel expenses	3,435	2,687
Remuneration to the members of Board of Directors	691	753

35. Uncertainties

Operating environment

Emerging markets including Republic of Belarus are subject to economical, political, social, legal and legislative risks, which are different from the risks of more developed markets. As previously, estimated or actual financial difficulties in countries with developing economies or increase of investment risks levels of in these countries could adversely affect the economy and investment climate in the Republic of Belarus.

The global financial system continues to face serious problems. In many countries the rates of economic growth have decreased. Moreover, the uncertainty increased regarding the creditworthiness of several Eurozone countries and financial institutions which carry significant risks for the sovereign debt of these countries. These problems can result in slower global growth rate and the growth rate of the Belarusian economy, adversely affect the availability and cost of capital for the Bank, as well as the business of the Bank in general, results of its operations, financial position and prospects of development.

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 subject to frequent changes. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of the Republic of Belarus and other actions beyond the Bank's control. The future direction of the economic policy of the Government of the Republic of Belarus can have an effect on the recoverability of the Bank's assets and the ability of the Bank to maintain or pay its debts as they mature.

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

Legislation

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

National Bank of the Republic of Belarus refinancing rate

During the year 2011 the National Bank of the Republic of Belarus gradually increased the refinancing rate which was 45% as of 31 December 2011 (10.5% as of 31 December 2010). In September 2011 the Standard & Poor's Rating Services downgraded long-term credit rating of the Republic of Belarus for national and foreign currency liabilities from "B" to "B-". The prediction for ratings is set as negative.

Devaluation of national currency

In the year 2011 the National Bank performed phased devaluation of Belarusian ruble (in May and in October, 2011), which as of 31 December 2011 resulted in 171% decrease of exchange rates to the currency basket compared to the 31 December 2010.

36. Subsequent events

In the first quarter of 2012 the National Bank gradually decreased refinancing rate from 45% to 36%. Such decision is explained by the slowdown of inflationary processes in the country.

According to official statistics published by Belarusian Statistic Committee inflation level in the Republic of Belarus was 6.8% for the first four months of 2012.

18 April 2012 Standard & Poor's Rating Services confirmed long-term credit rating of the Republic of Belarus for national and foreign currency liabilities at "B-" level and revised the prediction from "negative" to "stable".