OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

Consolidated Financial Statements
For the Year Ended 31 December 2011

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

CONTENT

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

STATEMENT OF MANAGEMENT'S RESPONSOBILITIES FOR THE PREPERATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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

Management is responsible for the preparation of the consolidated financial statements that present fairly in all material respects the financial position of the Group 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 consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information in consolidated financial statements, 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2011 were authorized for issue on 16 April 2012 and signed on behalf of the management of the Bank by Chairman of the Management Board and Chief Accountant of the Bank.

On behalf of the management:

Podkovyrov V.I.
Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

16 April 2012

KPMG, Limited liability company
5 Dimitrova str.
Office 9
220004 Minsk Belarus

Telephone +375 17 306 08 03
Fax +375 17 306 08 12
Mob +375 29 104 75 15
Internet www.kpmg.by

Independent Auditors' Report

To the Shareholders of OJSC "Belagroprombank"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Belagroprombank" ("the Bank") and its subsidiaries (together – "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 4 to 78.

Management's Responsibility for the Consolidated Financial Statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Open Joint Stock Company "Belagroprombank" as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, as described in Note 2, in 2011 the economy of the Republic of Belarus was classified as a hyperinflationary economy under International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29). The functional currency of the Bank is the Belarusian Ruble and accordingly the financial statements for the year ended 31 December 2011 including corresponding information have been adjusted in accordance with IAS 29.

Irina Vereschagina
Partner
KPMG LLC
Minsk, Belarus
30 April 2012

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011
(in millions of Belarusian Rubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (restated)
Interest income	5	8,556,014	5,851,899
Interest expense	5	(6,023,349)	(3,547,361)
Net interest income before allowance for impairment on interest bearing assets and effect of initial recognition		2,532,665	2,304,538
Net effect of initial recognition of financial instruments at fair value issued at non-market rates	5	989,277	(281,327)
Allowance for impairment for interest-bearing assets	6	(1,656,791)	(1,151,646)
NET INTEREST INCOME		1,865,151	871,565
Fee and commission income	7	754,031	677,645
Fee and commission expense	7	(118,513)	(79,208)
NET FEE AND COMMISSION INCOME		635,518	598,437
Net gain on foreign exchange operations and derivative financial instruments	8	379,432	413,736
Net gain/(loss) on investments available for sale		1,888	(14,636)
Other income	9	392,421	472,277
NET NON-INTEREST INCOME		1,409,259	1,469,814
OPERATING INCOME		3,274,410	2,341,379
Operating expenses	10	(1,352,226)	(1,341,236)
Other provisions	6	(126,208)	(40,497)
PROFIT BEFORE INCOME TAXES AND LOSS ON NET MONETARY POSITION		1,795,976	959,646
Income tax expense	11	(418,357)	(246,028)
PROFIT BEFORE LOSS ON NET MONETARY POSITION		1,377,619	713,618
Loss on net monetary position	12	(5,860,984)	(876,341)
NET LOSS FOR THE YEAR		(4,483,365)	(162,723)
Net (loss)/income attributable to:			
Shareholders of the Bank		(4,504,734)	(160,463)
Non-controlling interest		21,369	(2,260)

On behalf of the management:

Podkovyrov V.I.
Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

16 April 2012

Notes on pages 10-78 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(in millions of Belarusian Rubles)

	Year ended 31 December 2011	Year ended 31 December 2010 (restated)
NET LOSS FOR THE YEAR	(4,483,365)	(162,723)
OTHER COMPREHENSIVE INCOME		
Change in fair value of securities available for sale	(31,178)	12,758
Transfer of impairment loss on securities available for sale to profit and loss	-	3,633
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME	(31,178)	16,391
TOTAL COMPREHENSIVE LOSS	(4,514,543)	(146,332)
TOTAL COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO:		
Shareholders of the Bank	(4,535,912)	(144,072)
Non-controlling interest	21,369	(2,260)

On behalf of the management:

Podkovyrov V.I.
Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

16 April 2012

Notes on pages 10-78 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011
(in millions of Belarusian Rubles)

	Notes	31 December 2011	31 December 2010 (restated)
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	13	2,216,152	2,564,177
Due from banks	14	886,748	734,364
Precious metals		3,649	5,513
Derivative financial instruments	15	3,878,110	216,198
Loans to customers	16	33,415,245	47,637,982
Investments in securities available for sale	17	2,707,564	3,303,412
Property, equipment and intangible assets	18	1,887,223	1,708,905
Current income tax assets		6,435	23,461
Other assets	19	548,484	707,870
TOTAL ASSETS		45,549,610	56,901,882
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to the National Bank of the Republic of Belarus	20	140,000	8,087,013
Due to banks	21	9,127,997	8,771,194
Derivative financial instruments	15	7,014	10
Customer accounts	22	17,651,095	21,635,237
Debt securities issued	23	7,699,299	4,583,306
Current income tax liabilities		72,713	18,829
Deferred income tax liabilities	11	343,928	292,708
Commitments to provide loans at below market rates	16	97,773	201,526
Other liabilities	24	357,520	326,484
Total liabilities		35,497,339	43,916,307
EQUITY:			
Share capital	25	17,148,459	15,530,163
Treasury shares		(140)	(140)
Fair value reserve for investments available for sale		(40,512)	(9,334)
Retained earnings		(7,088,386)	(2,545,958)
Total equity attributable to shareholders of the Bank		10,019,421	12,974,731
Non-controlling interest		32,850	10,844
Total equity		10,052,271	12,985,575
TOTAL LIABILITIES AND EQUITY		45,549,610	56,901,882

On behalf of the management:

Podkovyrov V.I.
Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

16 April 2012

Notes on pages 10-78 form an integral part of these consolidated.

OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(in millions of Belarusian Rubles)

	Notes	Share capital	Treasury shares	Fair value reserve for investments available for sale	Retained earnings/ (accumu-lated deficit)	Total equity attributable to shareholders of the Bank	Non-controlling interest	Total equity
Balance as at 31 December 2009		4,438,544	(35)	(11,133)	138,549	4,565,925	(2,433)	4,563,492
Prior year restatements for hyperinflation	4	8,719,384	(84)	(14,592)	(2,580,444)	6,124,264	(2,222)	6,122,042
Balance as at 31 December 2009 (restated)		13,157,928	(119)	(25,725)	(2,441,895)	10,690,189	(4,655)	10,685,534
Transactions with equity owners								
Share capital increase	25	2,372,235	-	-	-	2,372,235	-	2,372,235
Sale of treasury shares		-	(21)	-	-	(21)	-	(21)
Dividends declared and paid for 2009		-	-	-	(19,252)	(19,252)	(167)	(19,419)
Transfer of subsidiaries from state to the Bank, including changes in ownership structure of subsidiaries		-	-	-	75,652	75,652	17,926	93,578
Comprehensive (loss)/income (restated)		-	-	16,391	(160,463)	(144,072)	(2,260)	(146,332)
Balance as at 31 December 2010		5,563,544	(44)	(3,317)	579,872	6,140,055	4,658	6,144,713
Prior year restatements for change in the accounting policy and hyperinflation	4	9,966,619	(96)	(6,017)	(3,125,830)	6,834,676	6,186	6,840,862
Balance as at 31 December 2010 (restated)		15,530,163	(140)	(9,334)	(2,545,958)	12,974,731	10,844	12,985,575
Transactions with equity owners								
Share capital increase	25	1,618,296	-	-	-	1,618,296	-	1,618,296
Dividends declared and paid for 2010	25	-	-	-	(37,057)	(37,057)	-	(37,057)
Changes in ownership in subsidiaries without loss of eontrol		-	-	-	(637)	(637)	637	-
Comprehensive (loss)/income		-	-	(31,178)	(4,504,734)	(4,535,912)	21,369	(4,514,543)
Balance as at 31 December 2011		17,148,459	(140)	(40,512)	(7,088,386)	10,019,421	32,850	10,052,271

On behalf of the management:

Podkovyrov V.I.
Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

16 April 2012

Notes on pages 10-78 form an integral part of these consolidated.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(in millions of Belarusian Rubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes and loss on net monetary position		1,795,976	959,646
Adjustments for:			
Increase in impairment losses on interest bearing assets		1,656,791	1,151,646
Change in other provisions		126,208	40,497
Fair value gain on initial recognition of financial instruments at fair value		(989,277)	281,327
Amortization of discount on financial instruments with non-market terms		192,597	(56,949)
Depreeiation of property and equipment and amortization of intangible assets		133,900	105,165
Loss from disposal of property and equipment and intangible assets		3,606	23,814
(Profit)/loss from disposal of securities available for sale		(1,888)	14,636
Write-down of inventory to net realizable value		(4,410)	24,125
Change in eommission aceruals, net		(17,268)	(4,699)
Net (loss)/gain on derivative financial instruments operations		(5,189,896)	(183,864)
Net effect of translation differences		5,393,556	(58,915)
Change in interest accruals, net		(625,690)	(37,524)
Cash flows from operating activities before changes in operating assets and liabilities		2,474,205	2,258,905
Change in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Due from the National Bank of the Republic of Belarus		(56,468)	124,670
Due from banks		(204,869)	45,687
Precious metals		(1,455)	(386)
Loans to customers		(9,096,789)	(15,359,001)
Other assets		239,707	(145,687)
Increase in operating liabilities:			
Due to the National Bank of the Republic of Belarus		(5,402,070)	2,890,970
Due to banks		839,034	1,243,504
Customer accounts		7,118,359	7,076,102
Other liabilities		(177,770)	56,680
Cash outflow from operating activities before taxation		(4,268,116)	(1,808,556)
Income taxes paid		(115,751)	(60,709)
Net cash outflow from operating activities		(4,383,867)	(1,869,265)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(366,837)	(480,443)
Proceeds on sale of property, equipment and intangible assets		33,557	5,369
Proceeds on sales and paying off of investments available for sale		704,855	4,823,178
Purchase of securities available for sale		(2,234,967)	(7,364,942)
Net cash outflow from investing activities		(1,863,392)	(3,016,838)

(continued on next page)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011 (CONTINUED)
(in millions of Belarusian Rubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010 (restated)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(37,057)	(19,419)
Share capital increase		1,618,296	2,372,235
Proceeds on issue of debt securities, net		5,459,767	4,961,975
Net cash inflow from financing activities		7,041,006	7,314,791
NET INCREASE IN CASH AND CASH EQUIVALENTS		793,747	2,428,688
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		345,386	1,930
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS		(1,467,189)	(85,452)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	13	3,050,306	705,140
CASH AND CASH EQUIVALENTS, END OF THE YEAR	13	2,722,250	3,050,306

On behalf of the management:

Podkovyrov V.I.
Chairman of the Management Board

Shapovalova M.A.
Chief Accountant

16 April 2012

Notes on pages 10-78 form an integral part of these consolidated financial statements.

(in millions of Belarusian Rubles unless otherwise stated)

1. ORGANIZATION

Open Joint Stock Company "Belagroprombank" ("the Bank") was registered in the Republic of Belarus by the National Bank of the Republic of Belarus on 3 September 1991.

The address of the Bank's registered office is 3 Zhukova Avenue, Minsk, Republic of Belarus.

The Bank provides a wide range of banking services to its clients, which are mainly Belarusian enterprises. The Bank's primary areas of operations include granting loans to the agricultural and other sectors, to individuals, processing customer accounts and customer payments, securities and currency operations. The Bank participates in the realization of various Government programs including financing of agricultural sector and subsidized construction of housing in rural areas.

The Bank has a special permit (license) for banking activities № 2 issued 22 July 2009 by the National Bank of the Republic of Belarus, which allows it to maintain current accounts and attract demand and time deposits from private and corporate customers, to place the attracted funds, to issue guarantees and carry out other banking operations as stipulated by the Banking Code of the Republic of Belarus. The Bank also has a license for securities trading.

The Bank's organizational structure includes the head office and 73 (2010: 79) branches: 6 regional offices, Minsk city directorate, 66 (2010: 72) local branch offices throughout the Republic of Belarus and Representative office in the Italian Republic.

As at 31 December 2011 and 2010 the structure of the Bank's ownership was as follows:

Shareholder	**31 December 2011**	**31 December 2010**
State Property Committee of the Republic of Belarus	81.90%	76.11%
RUE "Belgosstrakh"	9.84%	12.99%
RUE "Belarusian National Reinsurance Organization"	5.30%	7.00%
Regional Executive Committees	1.89%	2.49%
PUE "Beleximgarant"	0.76%	1.00%
Other	0.31%	0.41%
Total	100.00%	100.00%

The Bank is a parent company of the group, which consists of the following enterprises consolidated in the financial statements:

Name	**Country of registration and operation**	**The Bank's ownership interest, %** 31 December 2011	31 December 2010	**Type of operation**
PUE "Ozeritskiy-Agro"	Republic of Belarus	100%	100%	Agriculture
PE "Agrobusinessconsult"	Republic of Belarus	100%	100%	Consulting services
OJSC "Turovschina"	Republic of Belarus	95.03%	93.19%	Agriculture
OJSC "Agroleasing"	Republic of Belarus	66.7%	66.7%	Finance leases

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated 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").

Basis of Measurement

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

The financial statements are prepared on the historical cost basis except for financial instruments at fair value through profit or loss, investments in securities available for sale and precious metals that are measured at fair value. The financial statements have been adjusted for hyperinflation in accordance with International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

Hyperinflation

In 2011 the economy of the Republic of Belarus was classified as a hyperinflationary economy under the criteria included in IAS 29, and IAS 29 has been applied retrospectively to the financial statements for the year ended 31 December 2011.

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. Therefore application of IAS 29 results in an adjustment to the statement of comprehensive income for the gain or loss of purchasing power of the Belarusian Ruble under the caption “Loss on net monetary position”. This gain or loss on net monetary position is calculated as a difference resulting from the restatement of non-monetary assets, non-monetary liabilities, equity and items of the statement of comprehensive income.

The Bank's opening statement of financial position as at 31 December 2009 in relation to non-monetary items (non-monetary assets and equity) measured at historical cost was restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed, as well as respective effect on deferred tax until the end of the reporting period.

The corresponding figures for the year ended 31 December 2010 were restated for the changes in the general purchasing power of the Belarusian Ruble for 2010 and 2011.

(in millions of Belarusian Rubles unless otherwise stated)

The restatement was calculated using the conversion factors derived from the Consumer Price Index (CPI), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The CPIs for the six years ended 31 December 2011 are the following:

Year	%
2006	6.6%
2007	12.1%
2008	13.3%
2009	10.1%
2010	9.9%
2011	108.7%

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

The Bank's financial statements based on the Belarusian statutory accounting records are subject to approval by the shareholders of the Bank. The shareholders have the right to reject these financial statements and request they be amended and reissued.

These consolidated financial statements for the year ended 31 December 2011 were authorized for issue on 16 April 2012 and signed on behalf of the management by the Chairman of the Management Board and the Chief Accountant.

Use of Estimates and Judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the end of reporting period, and the reported amount of income and expenses during the period ended.

Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the current circumstances. Although those estimates are based on the most recent information available to the management on current actions and events, actual results may differ from these estimates under different assumptions or conditions.

(in millions of Belarusian Rubles unless otherwise stated)

At the reporting date key assumptions concerning the future and other key sources of estimation uncertainty, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period as well as the key estimates include the following:

	Note	31 December 2011	31 December 2010 (restated)
Loans for housing construction granted under governmental programs, gross	16	6,008,735	11,221,447
Loans issued under the major Government programs, except for loans for housing construction, gross	16	3,154,552	5,829,377
Allowance for impairment of loans to customers	16	(1,780,884)	(1,724,504)
Derivative financial instruments (assets)	15	3,878,110	216,198
Derivative financial instruments (liabilities)	15	7,014	10
Investments in securities available for sale	17	2,707,564	3,303,412
Customer accounts	22	17,651,095	21,635,237
Debt securities issued	23	7,699,299	4,583,306

Fair value on initial recognition of loans to customers, customer accounts and debt securities issued

Key area of estimate uncertainties having the greatest effect on the amounts recognized in the consolidated financial statements includes accounting at amortized cost adjusted for nominal interest rate of loans for housing construction granted under governmental programs, as such loans for housing construction do not have similar financial instruments in the market and due to their unique nature as well as the specifics of Government program loans and the borrowers' category and represent a separate market segment (Note 16).

Loans issued under Government programs, other that loans for housing construction, are considered to be issued at a below market rates. The Group initially measures loans originated at other than market terms at approximate fair value using appropriate discounting techniques (Note 16).

During the years ended 31 December 2011 and 2010 the Group received long-term BYR denominated deposits from government bodies at below market rates. The Group initially measures deposits at below market rates at approximate fair value using appropriate discounting techniques (Note 22).

In 2011 and 2010 the Group issued long-term bonds denominated in BYR at interest rate below market. The Group initially measures debt securities issued at other than market terms at approximate fair value using appropriate discounting techniques (Note 23).

Fair value of investments in securities available for sale

Securities available for sale represent investments in debt and equity securities (Note 17).

To determine the fair value of investments available for sale, the Group uses quoted market prices. In the absence of an active market for certain financial instruments the Group measures their fair value using appropriate valuation techniques. Valuation techniques include the use of data on market transactions between independent, knowledgeable and willing parties, the use of the current fair value of another instrument similar in nature, discounted cash flow analysis and other applicable methods. When there is a valuation technique commonly used by market participants for determining the price of the instrument and it has been demonstrated that such method provides a reliable estimate obtained in actual market transactions, the Group uses this method.

Unquoted equity investments are stated at cost less impairment losses (if any), when their fair value cannot be reliably identified.

Allowance for impairment

The Group regularly analyses its loans issued for impairment. The Group considers accounting estimates related to allowance for impairment of loans to be a key source of estimation uncertainty because (a) they are highly susceptible to change from period to period as the assumptions of potential losses relating to impaired loans are based on recent quality of loan portfolio, and (b) any significant difference between the Group's estimated losses and actual losses would have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical or macroeconomic data relating to similar borrowers or forecasting data relating to a borrower's business. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data and forecasts indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

Approaches to identification and recording of an impairment on an individual and aggregate basis for financial assets are disclosed in Section 3, "Significant accounting policies" of these consolidated financial statements.

The specific counterparty component of the total allowances for impairment applies to loans evaluated individually for impairment and 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, solvency and the net realizable value of any underlying collateral.

The allowance for impairment of loans, which are assessed collectively for impairment, is based on available information, which evidences the decrease of the expected future cash flows on the loan group. The Group’s assumptions about estimated losses are based on past performance, past customer behaviour, the credit quality of recently underwritten business and general economic conditions, which are not necessarily an indication of future losses. When assessing credit risk and allowances, the Group applies the same estimates and judgements to loan commitments as to loans.

The allowances for impairment of loans in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Belarus and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Derivative financial instruments

Currency forward contracts included in derivatives do not have active market and are valued using interest rates parity model. The fair value of the derivatives is determined on the basis of the risk-free interest rates applicable to respective currencies, default margins of counterpaties and exchange rates effective in the Republic of Belarus. The main assumptions in determination of fair value of derivatives are described in Note 28.

Critical accounting judgments in applying the Bank's accounting policies

Restatement for hyperinflation

The restatement of the financial statements in accordance with IAS 29 requires the application of certain procedures as well as judgment.

The management applies the Consumer Price Index (CPI), published by the Ministry of Statistics and Analysis of the Republic of Belarus for calculation of restatement of financial statements for inflation in accordance with requirements of IAS 29 as CPI represents the best available general price index that reflects changes in general purchasing power.

The restated cost, or cost less depreciation, of non-monetary assets and liabilities is determined by applying to its historical cost and accumulated depreciation the change in general price index from the month of acquisition (average monthly CPI is used) to the end of the reporting period.

The amounts of income and expenses are restated by applying the change in the general price index from the quarter when the items of income and expenses were initially recorded in the financial statements (average quartely CPI is used) to the end of the reporting period.

Recognition of deposits due from/to the financial institutions

The Bank places deposits in the National Bank of the Republic of Belarus ("NBRB") and attracts deposits from the NBRB in back to back transactions in equivalent amounts in different currencies with maturities on the same date.

As described in Note 4 in 2011 the management of the Bank reassessed the treatment in respect of such deposits and determined that these back to back transactions should be accounted for as derivative transactions and netted off in the statement of financial position as this treatment gives more reliable and relevant information about substance of these financial instruments.

Segment reporting

Operating segment is a component of the Group, representing operations, including revenues and expenditures and for which there is financial information evaluated regularly by senior management personnel (one person or group of persons) responsible for making operational decisions in the allocation of resources and analysis of financial performance. Financial information should be presented on the same basis on which it is used by the Group in evaluating segment performance and deciding how to allocate resources to operating segments.

At each reporting date the Group examines the quantitative thresholds specified in IFRS 8 “Operating Segments”, at which it is necessary to allocate the operating segments and disclose corresponding information in the consolidated financial statements. In preparing financial statements for the year ended 31 December 2011, no quantitative threshold was reached, and as a result as at the reporting date the Group was presented as a single operating segment.

Functional and presentation currency

The functional currency of the Bank and each of the subsidiaries and the presentation currency of these consolidated financial statements is the currency of the Republic of Belarus - Belarusian Ruble. The financial statements are presented, unless otherwise stated, in millions of Rubles.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

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

All significant transactions, balances, income and expenses on transactions with the subsidiaries are eliminated on consolidation.

Business combinations are accounted using the acquisition method as at acquisition date. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition including the recognized amount of any non-controlling interest.

The Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Profit or loss of subsidiary is attributed to the Group and non-controlling interest even if this results in the non-controlling interests having a deficit balance. Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Bank.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities in the consolidated statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Initial recognition

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Financial assets of the Group are classified into one of the following categories on initial recognition:

a) Financial assets at fair value through profit or loss;

b) Investments held to maturity;

c) Loans and receivables;

d) Financial assets available for sale.

Financial liabilities of the Group are classified into one of the following categories on initial recognition:

e) Financial liabilities at fair value through profit or loss;

f) Financial liabilities at amortized cost.

The accounting principles for subsequent measurement of financial instruments are disclosed in the respective accounting policies.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial assets and liabilities acquired principally for the purpose of sale / redemption in a short period, or form part of a portfolio of identified financial instruments that are managed together and the structure of which actually indicates the intention of making a profit in the short term, as well as financial assets and liabilities, which at initial recognition are classified by the Group as at fair value through profit or loss, or are derivative financial instruments, except when they are effective hedging instruments. Financial assets and liabilities at fair value through profit or loss are measured initially and subsequently at fair value. Fair value movements on financial assets and liabilities at fair value through profit or loss are recognized in the consolidated income statement for the period.

Investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group intends and is able to hold them to maturity. Investments that the Group intends to hold for an indefinite period of time are not included in this category. Investments held to maturity are subsequently accounted for at amortized cost, using the effective interest method. Income and expenses are recognized in the consolidated profit and loss on impairment of investments, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable cash flows that do not have a quoted market price, except for assets that are classified in other categories of financial assets.

Loans with fixed maturities and receivables are initially recognized at fair value plus transaction costs directly attributable to the acquisition or creation of such financial assets.

The difference between the nominal amount of cash transferred and the fair value of loans granted at a rate below the market rate, is recognized in the period of origination as an adjustment on initial recognition. Discounting is performed using approximate market rates effective at the time of granting the loan, the adjustment is reflected in the consolidated profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value".

The fair value of commitments to extend credit facilities at rates below the market rates is calculated as the difference between the nominal amount of obligations and the discounted future cash flows from borrowers as at the intended date of facility release. Subsequently the difference, if any, between the fair value of credit commitments and adjustments on initial recognition is recognized in the consolidated profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value ".

Subsequently loans to customers are recorded at amortized cost using the effective interest rate method. Loans to customers are accounted for net of impairment losses, if any. Income and expenses on such assets are recognized in the consolidated statement of profit and loss on their disposal or impairment, as well as through the amortization process.

In the normal course of business, the Group 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. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks are carried net of allowance for impairment losses, if any.

Financial assets available for sale

Securities available for sale represent investments in debt and equity securities, which are not classified in any of the other categories. Such securities are initially recognized at fair value. Subsequently securities are measured at fair value attributing the fair value gain or loss directly to other comprehensive income until the securities are sold and the accumulated profit / loss previously recognized in other comprehensive income is recognized in the consolidated profit and loss. Impairment losses, positive and negative exchange rate differences, as well as accrued interest income, calculated on the basis of the effective interest rate method are recognized in the consolidated profit and loss. If there is objective evidence of impairment of these securities, the cumulative loss previously recognized in other comprehensive income is transferred to the consolidated statement of profit and loss for the reporting period and under account "Allowances for impairment of securities available for sale".

To determine the fair value of investments available for sale, the Group uses quoted market prices. Accrued income to be received is included in the market value of securities. In the absence of an active market for certain financial instruments the Group measures their fair value using appropriate valuation techniques. Valuation techniques include the use of data on market transactions between independent, knowledgeable and willing parties, the use of the current fair value of another instrument similar in nature, discounted cash flow analysis and other applicable methods. When there is a valuation technique commonly used by market participants for determining the price of the instrument and it has been demonstrated that such method provides a reliable estimate obtained in actual market transactions, the Group uses this method.

Unquoted equity investments are stated at cost less impairment losses (if any), when their fair value cannot be reliably identified.

Dividends received are included in other income in the consolidated statement of profit and loss.

Financial liabilities at amortized cost

Financial liabilities at amortised cost include mainly balances due to banks, customers and debt securities issued. Debt securities issued represent bonds issued by the Bank.

Balances due to banks and customers and debt securities issued are initially recognized at fair value. Subsequently amounts due at fixed maturities are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

The difference between the amount of cash consideration received and the fair value of deposits from banks and customers and debt securities issued at a below market interest rate is recognized in the period the deposit is drawn or debt security is issued as initial recognition adjustment. Discounting is performed using approximate market rates at inception and the adjustment is recognized in the consolidated income statement under account "Net effect of initial recognition of financial instruments at fair value".

Reclassification of financial assets

Financial asset classified as available for sale if it meets the definition of loans and receivables, may be reclassified to the category of loans and receivables, if the Group has the intention and ability to hold such asset for the foreseeable future or until maturity. Financial assets are reclassified at fair value at the date of reclassification. Gains and losses previously recognized in profit or loss are not reversed. The fair value of financial assets at the date of reclassification becomes its new initial or amortized cost, which is applicable.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for write-off, the Group does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Belarus ("National Bank") with original maturity within 90 days, loans and advances to banks in countries included in the Organization for Economic Cooperation and Development ("OECD") with original maturity within 90 days, which may be converted to cash within a short period of time, except for guarantee deposits and other restricted balances. For purposes of consolidated statement of cash flows, the minimum obligatory reserve deposit required by the National Bank is not included as a cash equivalent due to restrictions on its availability.

Precious metals

The Group performs transaction with precious metals for trading purposes. Precious metals are recognized and measured in these consolidated financial statements at fair value, which is determined based on prices set monthly by the National Bank of the Republic of Belarus.

Repurchase and reverse repurchase agreements

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

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

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

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, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

Derivative financial instruments

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments entered into by the Group include foreign currency forward and swap contracts.

The Group also places to and attracts from the National Bank of the Republic of Belarus back to back deposits in equivalent amounts, in different currencies with maturity on the same day. The placements represent in substance foreign exchange swaps and are concluded to hedge foreign exchange risk and lack of liquidity in the Belarusian Ruble.

Derivative financial instruments that are entered into by the Group do not qualify for hedge accounting.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Derivatives fair values are determined using interest rate parity model. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Gains and losses are recognized in the income statement for the period in which they arise, under account “Net gain on foreign exchange operations and derivative financial instruments”.

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and to sell all available collateral. Loans and advances may only be written off with the approval of the management of the Group.

Subsequent recoveries of amounts previously written off are recognized in other income.

Allowance for impairment losses

At each reporting date the Group assesses whether there is objective evidence of impairment of the financial asset or group of financial assets, including net investments in lease and excluding financial assets at fair value through profit or loss. Impairment losses are recognized when incurred as a result of one or more events ("loss events") that occurred after initial recognition of financial asset and that impact the amount or timing of the estimated future cash flows associated with financial asset or group of financial assets, which can be reliably evaluated.

The Group accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and collateral discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the impairment allowance account. The value of the asset should not exceed its amortized cost, which would have been, excluding impairment, as at the same reporting date. The value of recovery is recognized in the consolidated statement of profit and loss.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

For unquoted financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Impairment allowances are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or group evaluation of financial assets not being material individually. In the absence of objective evidence that a financial asset is impaired, the asset is allocated in a group of financial assets with similar credit risk characteristics for evaluation for impairment on an aggregate basis.

The change in the impairment is recognized in the consolidated income statement using the impairment allowance account Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the end of reporting period, although it is probable that in certain periods the Group can incur losses greater than recorded impairment. With the likelihood of discrepancies between actual losses and their assessment, the methodologies and assumptions used to estimate the impairment of financial assets are reviewed regularly to reduce these disparities.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where the rights to receive cash flows from the asset have expired.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Finance leases

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

The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently net investments in the lease are recognized in the statement of financial position net of allowance for possible impairment of their value.

The Group recognizes the finance income based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Operating leases

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

Lease payments/income under operating leases are recognized as expenses/income on a straight-line basis over the lease term and included in operating expenses/income.

Property, equipment and intangible assets

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

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

Buildings	1 –2.5%
Computer equipment	10 –25%
Vehicles	10 –14%
Furniture, other equipment and intangible assets	5 –33%

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

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

The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment is recognized in the respective period and is included in operating expenses.

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The taxpayer has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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 realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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

Other provisions

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

Government grants

Government grants are recognized by the Group when there is reasonable assurance that:

- the Group will be able to fulfill the terms of grants provision;
- grants will be received.

The grant is recognized on the accrual basis. Confidence in obtaining the grant is supported by the decision, notice or similar document. If the grant notification is received prior to the date of actual receipt of funds, the amount is recognized as a receivable.

The Group recognizes government grants received for compensation of expenses as income of the Group over the period in which the group recognizes the related expenses. Grants related to assets are recognized in the consolidated statement of financial position as deferred income and recognized as income on a systematic basis over the useful life of the related asset.

Financial guarantees contracts issued and letters of credit

Financial guarantees contracts and letters of credit issued by the Group are credit guarantees that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument.

Financial guarantees contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the present value of any expected payment when a payment under the guarantee has become probable and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Share capital

Contributions to share capital are recognized at their cost restated for inflation. Non-cash contributions are included into the share capital at fair value of the contributed assets and subsequently restated for hyperinflation.

Treasury shares are recognized at cost restated for inflation.

Dividends are recognized in equity as a reduction in the period in which they are declared at their cost restated for inflation. Dividends that are declared after the end of reporting period are treated as a subsequent event and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of Belarusian legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the pension fund. The Group does not have any pension arrangements separate from the State pension system of the Republic of Belarus.

Group also provides for the payment of various forms of financial aid to idle pensioners, former employees of the Bank. The Group establishes an allowance for these payments, based on the best estimates. Discounting of such reserves is made only if the effect of such discounting is material.

Interest income and expense

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

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

Fee income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. All other commissions are recognized when services are provided.

(in millions of Belarusian Rubles unless otherwise stated)

Recognition of back to back deposits in financial institutions/of financial institutions

The Bank places deposits in the National Bank and in other Belarusian banks and attracts deposits from the National Bank and other Belarusian banks in back to back transactions in different currencies with maturities on the same date.

As described in Note 4 in 2011 the management of the Bank reassessed the treatment in respect of such deposits and determined that these back to back transactions should be accounted for as derivative transactions and netted off in the statement of financial position as this treatment gives more reliable and relevant information about substance of these financial instruments in accordance with the guidance of IAS 39 “Financial instruments: recognition and measurement”.

Other income

Other income is recognized in the consolidated statement of profit and loss upon completion of the corresponding transactions.

Foreign currency translation

The consolidated financial statements of the Group are presented in Belarusian Rubles - the currency of the primary economic environment in which the Bank and its subsidiaries operate (their functional currency). Monetary assets and liabilities denominated in currencies other than the functional currency (foreign currencies) of the entity are translated into Belarusian Rubles at the exchange rate of the National Bank of Belarus at the end of reporting period. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations in profit and loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost (cost restated for inflation) are translated into Belarusian Rubles at the exchange rate of the National Bank at the date of acquisition. 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 at the date of fair value determination.

Rates of exchange

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

	31 December 2011	**31 December 2010**
USD/BYR	8,350.00	3,000.00
EUR/BYR	10,800.00	3,972.60
RUB/BYR	261.00	98.44

The following new standards, changes to standards and interpretations are obligatory for application in financial statements for the periods beginning on 1 January 2011, but had no impact on the Group's consolidated financial statements:

- *Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011)* - The amendment exempts government-related entities from certain disclosure requirements in relation to related party transactions. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

  The Group has not applied exemption in these consolidated financial statements.

- *Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual period beginning on or after 1 February 2010)* - The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

- *Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual period beginning on or after 1 January 2011)* - The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required.

- *Revised IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010)*- The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41.

  The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the consideration paid should be recognized in profit or loss.

- *IFRS 1 First-time Adoption of IFRSs - Accounting policy changes in the year of adoption (Effective for annual periods beginning on or after 1 January 2011).* IFRS 1 is amended to provide guidance about accounting policy changes and changes in the use of the exemptions in IFRS 1 that occur during the period covered by the first IFRS financial statements. The guidance applies to entities that publish interim financial information under IAS 34 *Interim Financial Reporting* during the period covered by their first IFRS financial statements, and states that:

  • such changes should be addressed in the explanation of the effects of the transition from previous GAAP to IFRS ; and
  • the reconciliations from previous GAAP to IFRS included in the previous interim financial information should be updated for those changes.

- *IFRS 1 First-time Adoption of IFRSs - Revaluation basis as deemed cost (Effective for annual periods beginning on or after 1 January 2011).* IFRS 1 is amended to state that a first-time adopter is permitted to use an event-driven fair value measurement as deemed cost for some or all of its assets (e.g. revaluation of certain assets on the occurrence of an initial public offering) when such revaluation occurred during the reporting periods covered by its first IFRS financial statements. Currently such a revaluation basis is permitted only when the revaluation occurs at or prior to the date of transition to IFRSs. The event-driven fair value measurement is required to be determined at the date when the event triggering such a revaluation occurred. Entities that adopted IFRSs in periods before the effective date of IFRS 1 or applied IFRS 1 in a previous period are permitted to apply this amendment retrospectively in the first annual period after the amendment is effective.
- *IFRS 1 First-time Adoption of IFRSs - Use of deemed cost for rate-regulated operations (not included in the 2009 ED) (Effective for annual periods beginning on or after 1 January 2011).* IFRS 1 is amended to state that if an entity holds items of property, plant and equipment or intangible assets used in certain rate-regulated activities and the carrying amount of those assets determined under previous GAAP includes amounts that do not qualify for capitalisation under IFRSs, then such carrying amount can be used as deemed cost at the date of transition to IFRSs. This exemption from the general requirements of IFRS 1 may be applied on an item-by-item basis. The amendment requires that each item to which this exemption is applied be tested for impairment in accordance with IAS 36 *Impairment of Assets* at the date of transition to IFRSs. Use of this exemption and the basis on which carrying amounts were determined under previous GAAP are required to be disclosed.
- *IFRS 3 Business Combinations - Transitional requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS (Effective for annual periods beginning on or after 1 July 2010).* IFRS 3 is amended to state that contingent consideration arising in a business combination that had been accounted for in accordance with IFRS 3 (2004) that has not been settled or otherwise resolved at the effective date of IFRS 3 (2008) continues to be accounted for in accordance with IFRS 3 (2004). For such contingent consideration the cost of the business combination is adjusted if and when payment of the contingent consideration is probable and the amount can be measured reliably. The amendment is required to be applied prospectively from the date when an entity first applied IFRS 3 (2008).
- *IFRS 3 Business Combinations - Measurement of non-controlling interests (Effective for annual periods beginning on or after 1 July 2010).* IFRS 3 is amended to limit the accounting policy choice to measure Non-controlling interests (NCI) upon initial recognition either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets to instruments that give rise to a present ownership interest and entitle the holder to a share of net assets in the event of liquidation. The accounting policy choice does not apply to other instruments, such as equity components of convertible bonds or options under share-based payment arrangements. Such instruments would be measured at fair value or in accordance with other relevant IFRSs, e.g. share-based payments that would give rise to NCI would be measured in accordance with IFRS 2 *Share-based Payment*. The amendment is required to be applied prospectively from the date when an entity first applied IFRS 3 (2008).
- *IFRS 3 Business Combinations - Unreplaced and voluntarily replaced share-based payment awards (Effective for annual periods beginning on or after 1 July 2010).* IFRS 3 contains guidance on how to apportion the market-based measure of an acquirer's share-based payment awards that are issued in exchange for acquiree awards between consideration transferred and post-combination cost when an acquirer is obliged to replace the acquiree's existing awards. IFRS 3 is amended so that the guidance for such awards also applies to voluntarily replaced acquiree awards and introduces attribution guidance for acquiree awards that are not replaced. The amendment is required to be applied prospectively from the date when an entity first applied IFRS 3 (2008).

- *IFRS 7 Financial Instruments: Disclosures - Amendments to disclosures (Effective for annual periods beginning on or after 1 January 2011).* IFRS 7 is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments. The existing disclosure requirements of IFRS 7 are amended as follows:

  • Disclosure of the amount that best represents an entity's maximum exposure to credit risk without considering any collateral held is required only if the carrying amount of a financial asset does not reflect such exposure already.

  • The financial effect of collateral held as security and other credit enhancements in respect of a financial instrument is required to be disclosed in addition to the existing requirement to describe the existence and nature of such collateral.

  • The requirement to disclose the nature and carrying amounts of collateral obtained, including policies for using the financial and non-financial assets when they cannot be converted into cash immediately, applies only to collateral held at the end of the reporting period.

  The following requirements have been removed from IFRS 7:

  • The requirement to disclose the carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated.

  • The requirement to provide a description of collateral held as security and other credit enhancements in respect of financial assets that are past due or impaired, including an estimate of their fair value.

  Additionally, the clause stating that quantitative disclosures are not required when a risk is not material has been removed from IFRS 7.

- *IAS 1 Presentation of Financial Statements - Presentation of statement of changes in equity (Effective for annual periods beginning on or after 1 January 2011).* IAS 1 is amended to state that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity. That reconciliation is required to show separately changes arising from items recognised in profit or loss, in other comprehensive income, and from transactions with owners acting in their capacity as owners. Disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but is permitted to be presented either in the statement of changes in equity or in the notes.

- *IAS 27 Consolidated and Separate Financial Statements - Transition requirements for amendments made as a result of IAS 27 (2008) to IAS 21, IAS 28 and IAS 31 (Effective for annual periods beginning on or after 1 July 2010).* IAS 27 (2008) resulted in a number of consequential amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*, which amendments added guidance about disposals of all or part of a foreign operation and about accounting for a loss of significant influence or joint control. However, it was not specified whether those amendments were to be applied retrospectively or prospectively. The *Improvements to IFRSs 2010* requires prospective application for all such consequential amendments, except for the amendments to IAS 28 and IAS 31 that solely are the result of renumbering in IAS 27 (2008).

- *IAS 34 Interim Financial Reporting - Significant events and transactions (Effective for annual periods beginning on or after 1 January 2011).* A number of examples have been added to the list of events or transactions that require disclosure under IAS 34, being:

  • recognition of a loss from the impairment of financial assets;

  • significant changes in an entity's business or economic circumstances that have an impact on the fair value of items in the statement of financial position, regardless of whether such items are accounted for at fair value;

  • significant transfers of financial instruments between levels of the fair value hierarchy; and

• changes in assets' classification (e.g. from available for sale to held to maturity) as a result of changes in their purpose or use.

In addition, references to materiality are removed from the section in IAS 34 that describes other minimum disclosures.

- *IFRIC 13 Customer Loyalty Programmes - Fair value of award credit (Effective for annual periods beginning on or after 1 January 2011).* The terminology used in respect of the values of awards and award credits in a customer loyalty programme is amended. IFRIC 13 uses the term "fair value" in relation to both the value of award credits and the value of the awards for which such award credits could be redeemed. IFRIC 13 as amended states that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.

New standards and interpretations not yet effective

The following new Standards and Interpretations are not yet effective for the year ended 31 December 2011 and have not been early adopted in preparing these consolidated financial statements.

The impact assessment for these new standards and amendments has not yet been finalized:

- *Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively)* – The Amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position; or subject to master netting arrangements or similar agreements.

- IFRS 9 *Financial Instruments (2009) (effective for annual periods beginning on or after 1 January 2015, to be applied prospectively. Earlier application is permitted.)* - This Standard replaces the guidance in IAS 39 “Financial Instruments: Recognition and Measurement" about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition:

    - financial assets measured at amortized cost; or
    - financial assets measured at fair value.

  A financial asset is measured at amortized cost if the following two conditions are met:

    - the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
    - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

  Gains and losses on remeasurement of financial assets measured at fair value are recognized in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognized in OCI is ever reclassified to profit or loss at a later date.

- *Additions to IFRS 9 Financial Instruments (2010) (effective for annual periods beginning on or after 1 January 2015, to be applied prospectively. Earlier application is permitted.)* - The 2010 additions to IFRS 9 replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial liabilities and the derecognition of financial assets and financial liabilities.

  The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities.

  The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.

  Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.

- *IFRS 13 Fair Value Measurement (effective prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.)* - IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

  The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

- *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted.)* - The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

- *IFRS 12 Disclosure of Interests in Other Entities* (*effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted.*) - IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

- *Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (*effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted.*) The amendments:

  - require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.

  - change the title of the *Statement of Comprehensive Income* to *Statement of Profit or Loss and Other Comprehensive Income*, however, other titles are also allowed to be used.

- *IAS 27 (2011) Separate Financial Statements* (*effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.*) - IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 Consolidated Financial Statements.

- *IAS 28 (2011) Investments in Associates and Joint Ventures* (*amendments effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.*) - There are limited amendments made to IAS 28 (2008):

  - *Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

  - *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

- *Amendments to IFRS 7 Disclosures - Transfers of Financial Assets* (e*ffective for annual periods beginning on or after 1 July 2011; to be applied prospectively. Earlier application is permitted.)*- The Amendments require disclosure of information that enables users of financial statements:

  - to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and

  - to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.

  The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

- *Amendments to IFRS 9 and IFRS 7: Mandatory effective date and transitional disclosures*. These Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 (2010).

  The amended IFRS 7 require to disclose more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9.

  If an entity adopts IFRS 9 on or after 1 January 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application.

  If an entity early adopts IFRS 9 in 2012, then it has a choice either to restate comparative information or to provide the enhanced disclosures as required by the amended IFRS 7.

  If an entity early adopts IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended IFRS 7 are required.

- *IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively when there is a change in the control conclusion. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)* - IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when it is exposed or has rights to variable returns from its involvements with the investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns.

  The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

The following new standards and amendments are not expected to impact the Group's consolidated financial statements:

- *IAS 19 (2011) Employee Benefits* (*effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply. Earlier application is permitted*.) - The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognized in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

- *IFRS 11 Joint Arrangements supersedes and replaces IAS 31*, *Interest in Joint Venture (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early*) - IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out, from IAS 31 jointly controlled entities, those cases in which, although there is a separate vehicle for the joint arrangement, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements.

- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013. It applies prospectively to production stripping costs incurred on or after the beginning of the earliest period presented. Earlier application is permitted.)-* The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets.

  To the extent that benefits from production stripping are realised in the form of inventory produced, the related production stripping costs are accounted for in accordance with IAS 2 Inventories.

  Production stripping costs that improve access to ore to be mined in the future are recognized as a non-current asset if, and only if, all of the following criteria are met:

  - it is probable that future economic benefits will flow to the entity;
  - the entity can identify the component of the ore body for which access has been improved; and
  - the costs relating to the stripping activity associated with that component can be measured reliably.

  The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset.

  The stripping activity asset shall initially be recognized at cost while after initial recognition, it shall be carried at either its cost or its revalued amount, less depreciation or amortisation and impairment losses, in the same way as the existing asset of which it is a part.

  The Interpretation also requires that when the costs of the stripping activity asset and of the inventory produced are not separately identifiable, the entity allocates production stripping costs between the two based on a ‘relevant’ production measure.

- *Amendments to IAS 12 Income taxes - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012)* The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that the carrying value of the underlying assets would be recovered entirely by sale. Management’s intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset’s economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

4. RESTATEMENTS OF CORRESPONDING AMOUNTS

Hyperinflation

As described in Note 2 the corresponding figures for the year ended 31 December 2010 were restated for the changes in the general purchasing power of the Belarusian Ruble for 2010 and 2011.

Monetary items were restated by applying a general price index for 2011 so that the corresponding figures are presented in terms of the measuring unit current at the end of the reporting period.

Non-monetary items were restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed, as well as respective effect on deferred tax until the end of the reporting period.

Items of the statement of comprehensive income for the year ended 31 December 2010 were restated to reflect the effect of inflation from the dates when the items of income and expenses were initially recorded in the financial statements until the end of the reporting period.

Change in accounting policy

An additional restatement in respect of prior year has been made by the Bank and is described below.

During 2010 and as at 31 December 2010 the Bank had placed deposits in the National Bank and had attracted deposits from the National Bank in back to back transactions in different currencies with maturities on the same date. In 2010 such deposits were not netted off as credit risk was assessed to be different for different transactions and the amounts concerned were recognized as due from/to banks and other financial institutions and measured at amortised cost in the financial statements for the year ended 31 December 2010.

(in millions of Belarusian Rubles unless otherwise stated)

In 2011 the management of the Bank reassessed the treatment in respect of such deposits and determined that these back to back transactions should be accounted for as derivative transactions and netted off in the statement of financial position as this treatment gives more reliable and relevant information about substance of these financial instruments in accordance with the guidance of IAS 39 “Financial instruments: recognition and measurement”. These corresponding figures were adjusted accordingly as at 31 December 2010 and for the year then ended.

	Amount as per previous report	Amount of reclassification of deposits in derivatives (before restatement for hyperinflation)	Effect of restatement for hyperinflation	Amount after restatements
Cash and balances with the National Bank of the Republic of Belarus	2,510,091	(1,281,290)	1,335,376	2,564,177
Derivative financial instruments	8,663	94,943	112,592	216,198
Property and equipment	680,489	-	1,028,416	1,708,905
Deferred income tax assets	15,017	(11,860)	(3,157)	-
Other assets	328,765	-	379,105	707,870
Due to the National Bank of the Republic of Belarus	5,032,064	(1,156,618)	4,211,567	8,087,013
Deferred tax liability	107,296	12,832	172,580	292,708
Share capital	5,563,544	-	9,966,619	15,530,163
Retained earnings/(accumulated deficit)	579,872	(54,421)	(3,071,409)	(2,545,958)
Interest income	2,708,767	(35,241)	3,178,373	5,851,899
Interest expense	(1,670,744)	50,080	(1,926,697)	(3,547,361)
Net effect of initial recognition of financial instruments at fair value	12,029	(140,557)	(152,799)	(281,327)
Net gain on foreign exchange operations and derivative financial instruments	93,032	95,989	224,715	413,736
Income tax expense	(65,496)	(24,692)	(155,840)	(246,028)

The figures in the statement of cash flows for the year ended 31 December 2010 were restated accordingly and stated in terms of measuring units as at 31 December 2011.

(in millions of Belarusian Rubles unless otherwise stated)

5. NET INTEREST INCOME

Net interest income on financial assets recorded at amortized cost comprises:

	Year ended 31 December 2011	**Year ended 31 December 2010 (restated)**
Interest income on financial assets recorded at amortized cost		
Interest on loans to customers	8,045,604	5,585,083
Interest on due from banks	93,067	46,722
Other interest income	21,519	22,474
Total interest income on financial assets recorded at amortized cost	8,160,190	5,654,279
Interest income on financial assets recorded at fair value		
Interest on investments available for sale	395,824	197,620
Total interest income	8,556,014	5,851,899
Interest expense on financial liabilities recorded at amortized cost		
Interest on customer accounts	(2,886,839)	(1,901,060)
Interest on due to banks	(2,209,989)	(1,348,491)
Interest on debt securities issued	(872,748)	(247,956)
Interest on REPO transactions	(49,986)	(49,814)
Other interest expense	(3,787)	(40)
Total interest expense	(6,023,349)	(3,547,361)
Net interest income before allowance for impairment on interest bearing assets and effect of initial recognition	2,532,665	2,304,538

For the years ended 31 December 2011 and 2010 the interest income on impaired assets consist of interest on loans to customers in the amount of BYR 8,045,604 million and BYR 5,585,083 million, respectively.

Net effect of initial recognition of financial instruments at fair value issued at non-market rates is presented as follows:

	Year ended 31 December 2011	**Year ended 31 December 2010 (restated)**
Initial recognition at fair value of:		
Loans to corporate customers	(531,510)	(839,705)
Commitments to issue loans at below market rates	(150,985)	(211,388)
Customer accounts	489,253	161,562
Debt securities issued	1,182,519	608,202
Total effect of initial recognition of financial instruments	989,277	(281,327)

(in millions of Belarusian Rubles unless otherwise stated)

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Loans to customers	**Investments available for sale**	**Total**
31 December 2009 (restated)	977,039	-	977,039
Increase in impairment allowance	1,145,653	5,993	1,151,646
Write-off	(255,724)	-	(255,724)
Effect on net monetary position	(142,464)	(280)	(142,744)
31 December 2010 (restated)	1,724,504	5,713	1,730,217
Increase/(decrease) in impairment allowance	1,661,587	(4,796)	1,656,791
Write-off	(219,672)	-	(219,672)
Effect on net monetary position	(1,385,535)	(917)	(1,386,452)
31 December 2011	1,780,884	-	1,780,884

The movements in other provisions were as follows:

	Guarantees and other commitments
31 December 2009 (restated)	41,595
Provision	40,497
Effect on net monetary position	(5,678)
31 December 2010 (restated)	76,414
Provision	126,208
Effect on net monetary position	(73,188)
31 December 2011	129,434

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

(in millions of Belarusian Rubles unless otherwise stated)

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2011	Year ended 31 December 2010 (restated)
Fee and commission income:		
Commission for transactions on customer accounts and other customer service fees	672,593	619,628
Commission on foreign exchange transactions	46,110	25,128
Commission on transactions with banks	23,485	20,942
Commissions on transactions with securities	1,506	1,110
Other fee and commission income	10,337	10,837
Total fee and commission income	754,031	677,645
Fee and commission expense:		
Commission on transactions with plastic cards	(49,051)	(34,677)
Commission on documentary transactions	(33,416)	(26,499)
Commission on foreign exchange transactions	(20,948)	(2,957)
Commission on cash collection	(4,408)	(5,887)
Commission on transactions with banks	(862)	(1,156)
Commission on transactions with securities	(766)	(1,302)
Other fee and commission expense	(9,062)	(6,730)
Total fee and commission expense	(118,513)	(79,208)

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS AND DERIVATIVE FINANCIAL INSTRUMENTS

Net gain on foreign exchange operations and derivative financial instruments comprises:

	Year ended 31 December 2011	Year ended 31 December 2010 (restated)
Translation differences, net	(5,393,556)	58,915
Dealing with foreign currencies, net	930,347	249,178
Gain on derivatives operations	4,842,641	105,643
Total net gain on foreign exchange and derivative financial instruments	379,432	413,736

(in millions of Belarusian Rubles unless otherwise stated)

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2011	**Year ended 31 December 2010 (restated)**
Revenue on sale of agricultural products and other non-banking activities of subsidiaries	251,429	164,927
Recovery of loans and receivables previously written off	87,994	208,926
Fines and penalties received	21,542	20,298
Net income from disposal of property and equipment and other assets	12,078	244
Gratis property received	7,917	13,032
Income from operating leases	585	876
Other	10,876	63,974
Total other income	392,421	472,277

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2011	**Year ended 31 December 2010 (restated)**
Staff costs	509,706	492,779
Social security contributions	156,270	145,547
Depreciation and amortization	133,900	105,165
Contributions to deposits protection fund	74,172	63,522
Utilities, rentals and maintenance	69,746	77,345
Raw materials and inventory consumed in non-banking activities of subsidiaries	63,340	53,865
Taxes, other than income tax	51,783	70,450
Charity	42,919	45,217
Security expenses	38,950	39,471
Expenses on payments processing and transmission	35,112	34,602
Stationery and other office expenses	28,736	39,767
Vehicles maintenance and fuel	25,646	14,040
Professional services	15,638	19,423
Communications and postage	7,835	9,701
Other expenses	98,473	130,342
Total operating expenses	1,352,226	1,341,236

(in millions of Belarusian Rubles unless otherwise stated)

11. INCOME TAXES

The Group provides for current tax based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the year ended 31 December 2011 the tax rate for Belarusian banks and companies was 24%. During the year ended 31 December 2010 the tax rate was 24% for the republican tax and 3% for the municipal tax, which were charged successively and resulted in the combined current tax rate of 26.28%. Effective from 1 January 2012 the tax rate was 18% and has been used for the deferred tax recognized as at 31 December 2011.

In 2011 OJSC "Turovschina" was not subject to income taxes. In 2011 PUE "Ozeritskiy-Agro" and OJSC "Turovschina" were not subject to income taxes. The Bank's branches are separate taxpayers of income tax.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and tax exemptions for certain income. Major sources of non-deductible expenses include expenses over prescribed norms, fines and penalties, branches losses. Major amounts of non-taxable income relate to operations with securities issued by the Government, state local authorities and commercial companies.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2011 and 2010 relate mostly to different methods of accounting for values of certain assets, and income and expense recognition.

Temporary differences as at 31 December 2011 and 2010 comprise:

	31 December 2011	31 December 2010 (restated)
Deductible temporary differences:		
Other assets	-	45,720
Other liabilities	5,796	21,627
Total deductible temporary differences	5,796	67,347
Taxable temporary differences:		
Property, plant and equipment and intangible assets	(866,755)	(82,849)
Loans to customers	(403,872)	(940,033)
Investments in securities available for sale	(400,521)	(42,845)
Due to banks	(10,187)	(7,314)
Derivative financial instruments	(162,210)	(213,919)
Other assets	(72,964)	-
Total taxable temporary differences	(1,916,509)	(1,286,960)
Net temporary differences	(1,910,713)	(1,219,613)
Deferred tax liability at the rate 18% and 24%, respectively	(343,928)	(292,708)
Net deferred tax position	(343,928)	(292,708)

(in millions of Belarusian Rubles unless otherwise stated)

The relationships between the effective tax expense and expenses at the statutory tax rate for the years ended 31 December 2011 and 2010 are explained as follows:

	Year ended 31 December 2011	**Year ended 31 December 2010 (restated)**
Profit before income taxes and loss on net monetary position	1,795,976	959,646
Tax at the statutory tax rate (24% and 26.28%, respectively)	431,034	252,194
Effect of accounting for transactions under government lending programs and government deposits	(189,280)	58,965
Tax effect of non-deductible expenses and losses not carried forward in accordance with legislation	81,525	137,194
Tax effect of non-taxable income and other tax benefits	(100,396)	(225,411)
Effect of change in tax base of property and equipment due to revaluation performed under Belarusian statutory accounting rules	(21,745)	(41,597)
Effect of change in unrecognized deferred tax asset	-	(6,738)
Effect of inflation of non-monetary assets and liabilities	237,855	78,095
Effect of change in effective tax rate	(20,636)	(6,674)
Income tax expense	418,357	246,028
Current income tax expense	214,700	51,056
Deferred income tax expense	203,657	194,972

Movement of deferred tax liability of presented as follows:

	Year ended 31 December 2011	**Year ended 31 December 2010 (restated)**
Deferred tax liability as at 1 January	292,708	107,534
Increase in deferred tax liability	203,658	194,972
Effect of inflation	(152,438)	(9,798)
Deferred tax liability as at 31 January	343,928	292,708

(in millions of Belarusian Rubles unless otherwise stated)

12. LOSS ON NET MONETARY POSITION

Loss on net monetary position resulted from the restatement of the following items for hyperinflation:

	Year ended 31 December 2011	Year ended 31 December 2010
Effect of restatements of equity	(7,124,744)	(1,042,655)
Effect of restatement property and equipment and intangible assets	995,630	148,054
Effect of restatement of equity securities	205,851	19,609
Effect of restatement of other assets	44,251	3,552
Effect of restatement of other non-monetary items	18,028	(4,901)
Total loss on net monetary position	(5,860,984)	(876,341)

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

Cash and balances with the National Bank comprise:

	31 December 2011	31 December 2010 (restated)
Balances with the National Bank	1,464,549	1,784,097
Cash	751,603	780,080
Total cash and balances with the National Bank	2,216,152	2,564,177

The balances with the National Bank as at 31 December 2011 and 2010 included minimum reserve deposit in the amount of BYR 90,070 million and BYR 106,382 million, respectively. The Bank is required to maintain the minimum reserve deposit with the National Bank at all times.

Minimum reserve deposit with the National Bank is excluded from financial assets for the purpose of disclosures in relation to financial instruments.

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

	31 December 2011	31 December 2010 (restated)
Cash and balances with the National Bank	2,216,152	2,564,177
Due from banks in OECD countries with original maturities less than 90 days	596,168	592,511
Total cash and cash equivalents	2,812,320	3,156,688
Less long-term deposits with the National Bank	-	-
Less minimum reserve deposit with the National Bank	(90,070)	(106,382)
Total cash and cash equivalents	2,722,250	3,050,306

(in millions of Belarusian Rubles unless otherwise stated)

14. DUE FROM BANKS

Due from banks comprise:

	31 December 2011	31 December 2010 (restated)
Correspondent accounts and other demand deposits with banks	564,008	734,364
Loans and term deposits from banks	322,740	-
Total due from banks	886,748	734,364

As at 31 December 2011 and 2010 correspondent accounts and other demand deposits with banks included fixed amounts of BYR 68,461 million and BYR 58,946 million, respectively, placed as guarantee deposits on letters of credit, operations with plastic cards and settlements with international payment systems.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments as at 31 December 2011 comprised the following:

Foreign currency purchase contracts (forwards and swaps)	Notional amount (in units of currency to be purchased)	Fair value	
		Asset	Liability
USD/BYR	640,243,818 USD	3,349,330	(2,690)
EUR/BYR	96,890,358 EUR	528,681	(3,792)
EUR/USD	10,000,000 EUR	99	-
USD/EUR	12,923,650 USD	-	(87)
EUR/RUB	2,000,000 EUR	-	(96)
USD/RUB	6,000,000 USD	-	(349)
Total derivative financial instruments		3,878,110	(7,014)

Derivative financial instruments as at 31 December 2010 comprised the following:

Foreign currency purchase contracts (forwards and swaps)	Notional amount (in units of currency to be purchased)	Fair value (restated)	
		Asset	Liability
USD / BYR	584,896,753 USD	215,228	-
EUR / USD	23,000,000 EUR	904	(10)
RUB / EUR	121,193,850 RUB	35	-
RUB / USD	106,772,750 RUB	31	-
Total derivative financial instruments		216,198	(10)

(in millions of Belarusian Rubles unless otherwise stated)

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2011	31 December 2010 (restated)
Originated loans	34,827,672	49,144,694
Net investment in finance lease	368,457	217,792
	35,196,129	49,362,486
Less allowance for impairment losses	(1,780,884)	(1,724,504)
Total loans to customers	33,415,245	47,637,982

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2011 and 2010 are disclosed in Note 6.

Loans, grouped by the type of collateral and by sector are presented in the following tables. Grouping by collateral is based on carrying amount of the loan rather than on fair value or otherwise adjusted value of collateral.

	31 December 2011	31 December 2010 (restated)
Loans collateralized by guarantees of the Government and local authorities	15,861,755	25,692,864
Loans collateralized by property and inventory	8,168,491	10,862,753
Loans collateralized by real estate	3,560,705	5,840,491
Loans collateralized by lien over property and receivables	4,711,529	3,952,755
Loans collateralized by cash	541,546	197,755
Loans collateralized by other types of collateral	2,352,103	2,815,868
	35,196,129	49,362,486
Less allowance for impairment losses	(1,780,884)	(1,724,504)
Total loans to customers	33,415,245	47,637,982

	31 December 2011	31 December 2010 (restated)
Analysis by sector:		
Agriculture	15,146,605	23,472,991
Manufacturing	10,972,655	12,142,159
Trade	4,675,705	7,030,795
Individuals	1,602,732	2,425,451
Construction	479,485	699,890
Government bodies	37,203	83,069
Other	2,281,744	3,508,131
	35,196,129	49,362,486
Less allowance for impairment losses	(1,780,884)	(1,724,504)
Total loans to customers	33,415,245	47,637,982

(in millions of Belarusian Rubles unless otherwise stated)

As at 31 December 2011 and 2010 all loans were provided to the residents of the Republic of Belarus, which represents significant geographical concentration risk.

As at 31 December 2010 loans with the carrying amount before allowance for impairment losses of BYR 1,960,041 million were pledged to secure liabilities on debt securities issued (Note 23). As at 31 December 2010 there were no loans pledged.

Loans to individuals comprise the following products:

	31 December 2011	**31 December 2010 (restated)**
Consumer loans	1,396,668	2,063,839
Loans for purchase/construction of property	206,064	361,612
	1,602,732	2,425,451
Less allowance for impairment losses	(6,498)	(10,281)
Total loans to individuals	1,596,234	2,415,170

The table below summarizes an analysis of loans to customers by impairment:

	31 December 2011			**31 December 2010 (restated)**		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually assessed for impairment	5,225,262	(377,989)	4,847,273	4,765,288	(238,524)	4,526,764
Loans to customers collectively assessed for impairment	29,970,867	(1,402,895)	28,567,972	44,417,528	(1,485,980)	42,931,548
Non impaired loans	-	-	-	179,670	-	179,670
Total	35,196,129	(1,780,884)	33,415,245	49,362,486	(1,724,504)	47,637,982

As at 31 December 2011 loans to customers included loans in the amount of BYR 11,454 million whose final maturity has been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2010 loans to customers did not include any loans whose final maturity renegotiated.

(in millions of Belarusian Rubles unless otherwise stated)

The components of net investment in finance lease as at 31 December 2011 and 2010 are as follows:

	31 December 2011	31 December 2010 (restated)
Not later than one year	267,218	139,465
From one year to five years	196,072	120,886
Minimum lease payments	463,290	260,351
Less: unearned finance income	(94,833)	(42,559)
Net investment in finance lease	368,457	217,792
Less allowance for impairment losses	(860)	(2,723)
Total net investments in finance lease	367,597	215,069
Current portion	212,594	116,924
Long-term portion	155,863	100,868
Net investment in finance lease	368,457	217,792
Less allowance for impairment losses	(860)	(2,723)
Total net investments in finance lease	367,597	215,069

Participation in the Government lending programs

The Bank participates in the Government programs on granting beneficial loans to the agricultural sector and related industries. Under the major programs since 1996 the Bank granted loans for housing construction, since 2003 - loans for the acquisition of agricultural machinery, and since 2008 - loans for milk farms construction and for current assets financing of certain categories of agricultural and related enterprises. Several other Government lending programs are also carried out by the Bank. Part of the loans were issued from the funds received by the Bank from Government contributions to share capital and part from borrowed funds. For the loans issued from borrowed funds the Government provided compensation to the Bank to compensate for the fact that several loan programs are issued at non market beneficial rates to the borrower:

- In respect of the loans issued in 2008 and 2009 under the programs of milk farms construction - 6.5% per annum and for current assets financing of certain categories of agricultural and related enterprises - 3.25% per annum;
- In respect of other loans - for the difference between the loan rate and refinance rate of the National Bank plus 3%.

As at 31 December 2011 and 2010 the Bank had contractual commitments to disburse loans at below market rate for the purposes of agricultural machines purchase, financing of investment loans in accordance with the Order of the President of the Republic of Belarus and development of meat and dairy sector and Pripyat Polesye region in the amount of BYR 491,803 million and BYR 735,028 million, respectively. These commitments were recognized as financial liabilities at estimated fair value of BYR 97,773 million and BYR 201,526 million, respectively.

(in millions of Belarusian Rubles unless otherwise stated)

The information on total loans issued under the major Government programs is presented in the following table:

	Interest rate paid by the borrower	Term of the loan, years	Nominal amount		Amortized cost	
			31 December 2011	31 December 2010 (restated)	31 December 2011	31 December 2010 (restated)
Housing loans – non-compensated	3%	40	2,653,840	4,502,493	2,653,840	4,502,493
Housing loans – compensated	3%	40	3,354,895	6,718,954	3,354,895	6,718,954
Machinery loans – non-compensated	2%, 4%	5-9	114,612	241,848	78,935	187,714
Machinery loans – compensated	0%	5-9	-	2,337,925	-	2,069,321
Milk farms construction loans- compensated	0%	up to 12	18,951	1,874,525	18,951	1,340,729
Other beneficial loans – non-compensated	0-15%	1-16	1,810,813	2,545,259	1,222,709	1,823,300
Other beneficial loans – compensated	0-12%	up to 8	1,940,890	486,513	1,833,957	408,313
Total loans under Government programs			9,894,001	18,707,517	9,163,287	17,050,824

The interest rates on housing and machinery loans are significantly lower than inflation rates in the Republic of Belarus and refinance rate of the National Bank. Housing loans have a 3 year grace period for principal repayment.

Loans for housing construction do not have similar financial instruments in the market and due to their unique nature as well as the specifics of Government program loans and the borrowers' category and represent a separate market segment. Therefore management believes that the contractual interest rate of 3% per annum is the market rate for such loans.

Loans issued under other Government programs are considered to be issued at a below market rates.

The Bank initially measures loans originated at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. The market interest rate is estimated by the Group by reference to the refinancing rate of the National Bank plus the average profitability margin used by the Group for loans granted under non-preferential terms. On initial recognition an adjustment is recorded under item "Net effect of initial recognition of financial instruments at fair value" (Note 5).

(in millions of Belarusian Rubles unless otherwise stated)

17. INVESTMENTS IN SECURITIES AVAILABLE FOR SALE

Investments in securities available for sale comprise:

	31 December 2011	31 December 2010 (restated)
Securities available for sale		
Long-term Government bonds	940,273	617,184
Bonds issued by local authorities	938,187	1,957,473
Bond issued by legal entities	214,934	329,140
Eurobonds	211,509	-
Bond issued by non-banking financial institutions	-	7,412
	2,304,903	2,911,209
Corporate shares available for sale	402,661	392,203
Total investments in securities available for sale	2,707,564	3,303,412

As at 31 December 2010 bonds issued by legal entities were presented less allowance for impairment, amounted to BYR 5,713 million.

Long-term Government bonds - BYR denominated Government securities with original maturity of over one year and coupon or discount income that are issued by the Ministry of Finance of the Republic of Belarus.

Bonds issued by local authorities - BYR denominated coupon securities that are issued by regional executive committees with maturities from two years and six months to ten years.

Bond issued by legal entities - BYR denominated coupon securities that are issued by Belarusian enterprises with original maturity from one month to seven years.

Eurobonds - USD denominated coupon securities, issued by the Ministry of finance of the Republic of Belarus with original maturity from 5 to 7 years.

As at 31 December 2010 included in securities available for sale were long-term Government bonds of BYR 58,249 million, which were pledged as collateral for debt securities issued (Note 23).

As at 31 December 2011 and 2010 long-term government bonds with fair value of BYR 141,186 million and BYR 557,568 million, respectively, were pledged as collateral for loans under repurchase agreements with the Belarusian banks (Note 21).

As at 31 December 2010 bonds issued by local authorities with fair value of BYR 769,434 million, were pledged as collateral for the lombard credit of National Bank. As at 31 December 2011 there were no bonds issued by local authorities pledged as collateral for the lombard credit of National Bank.

As at 31 December 2011 and 2010 shares available for sale included shares of a Belarusian leasing company in the amount of BYR 389,410 million. The Group's share capital of the company amounted to 12.5%. These investments do not have a quoted market price and were recorded in the consolidated financial statements at cost.

(in millions of Belarusian Rubles unless otherwise stated)

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

The movements in property, equipment and intangible assets were as follows:

	Buildings	Computer equipment	Vehicles	Furniture, other equipment, and intangible assets	Construction in progress	Total
Hyperinflated cost						
31 December 2009 (restated)	793,341	166,214	75,296	346,103	173,559	1,554,513
Additions	45,330	21,472	21,773	202,505	172,491	463,571
Transfers	145,455	177	177	5,127	(150,936)	-
Business combinations	40,983	109	9,445	69,010	7,767	127,314
Disposals	(19,410)	(5,818)	(4,347)	(23,839)	(981)	(54,395)
31 December 2010 (restated)	1,005,699	182,154	102,344	598,906	201,900	2,091,003
Additions	28,821	8,748	40,421	127,309	147,789	353,088
Transfers	94,765	202	-	15,720	(110,687)	-
Disposals	(6,931)	(4,475)	(2,910)	(36,928)	(772)	(52,016)
31 December 2011	1,122,354	186,629	139,855	705,007	238,230	2,392,075
Accumulated depreciation						
31 December 2009 (restated)	62,968	79,163	29,114	112,186	-	283,431
Charge for the year	28,299	23,644	10,476	61,461	-	123,880
Disposals	(1,810)	(5,705)	(3,901)	(13,797)	-	(25,213)
31 December 2010 (restated)	89,457	97,102	35,689	159,850	-	382,098
Charge for the year	30,066	21,535	13,782	72,224	-	137,607
Disposals	(743)	(4,321)	(2,535)	(7,254)	-	(14,853)
31 December 2011	118,780	114,316	46,936	224,820	-	504,852
Net book value						
31 December 2011	1,003,574	72,313	92,919	480,187	238,230	1,887,223
31 December 2010 (restated)	916,242	85,052	66,655	439,056	201,900	1,708,905

A part of depreciation charge for the years ended 31 December 2011 and 2010 in the amount of BYR 3,707 million and BYR 18,715 million, respectively, is included in carrying amount of inventory and work in progress from agricultural activities.

(in millions of Belarusian Rubles unless otherwise stated)

19. OTHER ASSETS

Other assets comprise:

	31 December 2011	31 December 2010 (restated)
Other financial assets		
Settlements with Belarusian stock exchange on foreign currency transactions	-	51,405
Accrued commissions receivable	19,137	14,989
Accounts receivable on non-banking activities	5,741	4,797
Other accounts receivable	2,727	405
Total other financial assets	27,605	71,596
Other non-financial assets		
Equipment for transfer to finance lease	201,848	275,742
Inventory and work in progress in agricultural operations	179,867	164,286
Prepayments for property, equipment and intangible assets	29,525	32,906
Tax settlements, other than income taxes	23,194	94,043
Other prepayments	67,879	55,799
Other non-financial assets	18,566	13,498
Total non-financial assets	520,879	636,274
Total other assets	548,484	707,870

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

Balances due to the National Bank of the Republic of Belarus comprised:

	31 December 2011	31 December 2010 (restated)
Long-term loans	-	5,684,297
Short-term loans	140,000	2,402,716
Total due to National Bank	140,000	8,087,013

(in millions of Belarusian Rubles unless otherwise stated)

21. DUE TO BANKS

Due to banks comprise:

	31 December 2011	31 December 2010 (restated)
Loans from banks	8,696,211	8,208,056
Loans under repurchase agreements	401,218	553,950
Correspondent accounts of banks	30,568	9,188
Total due to banks	9,127,997	8,771,194

As at 31 December 2011 the balances due to banks of BYR 3,747,619 million were due to three banks (resident of the Republic of Belarus, resident of the Russian Federation and resident of an OECD country), amount due to each exceeding 10% of the total due to banks.

As at 31 December 2010 the balances due to banks of BYR 3,252,156 million were due to two banks (resident of the Republic of Belarus and resident of an OECD country), amount due to each exceeding 10% of the total due to banks.

As at 31 December 2011 and 2010 loans under repurchase agreements are represented by short-term loans granted by Belarusian banks with maturity of up to 30 days and from 31 to 90 days which are collateralized by long-term Government bonds at fair value of BYR 141,186 million and BYR 557,568 million, respectively (Note 17).

22. CUSTOMERS ACCOUNTS

Customer accounts comprise:

	31 December 2011	31 December 2010 (restated)
Time deposits	14,856,379	16,661,645
Current accounts and deposits repayable on demand	2,794,716	4,973,592
Total customer accounts	17,651,095	21,635,237

As at 31 December 2011 and 2010 included in customer accounts are long-term BYR denominated deposits from government bodies of BYR 323,409 million and BYR 2,977,683 million, respectively, received by the Group at below market rates. Funds received were used for issuing of loans to customers under Government programs (Note 16).

(in millions of Belarusian Rubles unless otherwise stated)

The Bank initially measures deposits received at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using refinancing rate of the National Bank as of the date of relevant instrument's inception. On initial recognition an adjustment is recorded under item "Net effect of initial recognition of financial instruments at fair value" (Note 5).

The information on these deposits is presented in the following table:

	31 December 2011	**31 December 2010 (restated)**
Nominal amount	656,807	3,870,089
Amortized cost	323,409	2,977,683

As at 31 December 2011 and 2010 customer accounts amounting to BYR 113,386 million and BYR 237,291 million, respectively, were pledged as collateral for letters of credit issued by the Group.

As at 31 December 2011 and 2010 customer accounts amounting to BYR 64,217 million and BYR 383,391 million, respectively, were pledged as collateral for clients' obligations to the Group.

As at 31 December 2011 customer accounts amounting to BYR 3,992,648 million (23% of all customer accounts) belonged to 3 clients (2 state governing bodies and 1 non-banking financial institution).

As at 31 December 2010 customer accounts amounting to BYR 10,022,441 million (46% of all customer accounts) belonged to 3 clients (2 state governing bodies and 1 non-banking financial institution).

Analysis by sector:	**31 December 2011**	**31 December 2010 (restated)**
Individuals	6,865,776	5,423,764
Government bodies	4,877,811	10,455,405
Insurance and finance	1,685,887	2,450,939
Manufacturing	1,609,833	1,147,495
Trade	1,329,410	821,522
Agriculture	624,391	590,001
Construction	312,586	368,666
Production and distribution of electricity, gas and water	115,803	22,190
Transport	29,963	28,733
Other	199,635	326,522
Total customer accounts	17,651,095	21,635,237

(in millions of Belarusian Rubles unless otherwise stated)

23. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2011	31 December 2010 (restated)
Interest bearing bonds	7,633,825	4,422,344
Bonds issued with a discount	65,474	160,962
Total debt securities issued	7,699,299	4,583,306

Interest bearing bonds - BYR and foreign currency denominated debt securities with original maturity ranging from half a year to twelve years and interest income that are issued by the Bank for individuals and legal entities.

Bonds issued with a discount – BYR, USD and EUR denominated debt securities with original maturity ranging from one to two years that are issued by the Bank for individuals.

The Bank’s bonds are traded on the Belarusian Currency Stock Exchange.

As at 31 December 2010 interest bearing bonds and bonds issued with a discount rate were secured with long-term housing loans provided to the Banks customers with the carrying amount of BYR 1,960,041 million (Note 16).

As at 31 December 2010 interest bearing bonds and bonds issued with a discount rate were also secured with long-term Government bonds, which were owned by the Bank in the carrying amount of BYR 58,249 million respectively (Note 17).

In 2011 the Group issued long-term bonds denominated in BYR at interest rate below market, which were purchased by the National Bank of the Republic of Belarus. As at 31 December 2011 OJSC “Bank of Development of the Republic of Belarus” is the holder of these bonds. In 2010 the Group issued long-term bonds denominated in BYR at interest rate below market, which were purchased by the National Bank of the Republic of Belarus. The proceeds were used for financing loans to the Belarusian agriculture companies (Note 16), including financing of the subsidiaries of the group operating in the agricultural sector.

The Bank initially measures debt securities issued at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using refinancing rate of the National Bank as of the date of relevant instrument's inception. On initial recognition adjustment is recorded under item "Net effect of initial recognition of financial instruments at fair value" (Note 5).

The information on these debt securities issued is presented in the following table:

	31 December 2011	31 December 2010 (restated)
Cost	1,353,186	908,909
Amortised cost	272,947	352,768

(in millions of Belarusian Rubles unless otherwise stated)

24. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2011	31 December 2010 (restated)
Other financial liabilities:		
Trade payables on non-banking activities	41,702	37,709
Other creditors	41,407	33,841
Total other financial liabilities	83,109	71,550
Other non-financial liabilities:		
Provision for guarantees and other commitments	129,434	76,414
Advances and prepayments received	127,330	133,094
Accruals on unused vacations	10,937	10,640
Taxes, other than income tax	6,550	5,759
Other	160	29,027
Total other non-financial liabilities	274,411	254,934
Total other liabilities	357,520	326,484

Movements in provisions for guarantees and other commitments for the years ended 31 December 2011 and 2010 are disclosed in Note 6.

25. SHARE CAPITAL

As at 31 December 2011 and 2010 the authorized, issued and fully paid share capital comprised 3,301,810,642 and 2,501,810,642 ordinary shares, respectively, with a par value of BYR 2,000 each, respectively, and 6,881 preference shares with a par value of BYR 2,000 each (all at statutory historical cost before restatement for hyperinflation). All ordinary shares are ranked equally and carry one vote. Preference shares are not redeemable and non-voting except for participation in limited range of decisions stated in the Bank's charter; amount of dividends for preference shares is determined annually by shareholders meeting.

The Bank's reserves distributable to shareholders are limited to the amount of retained earnings that are stated in the financial statements prepared in accordance with Belarusian statutory accounting rules. As per those audited financial statements as at 31 December 2011 and 2010 the retained earnings comprised BYR 708,684 million and BYR 474,502 million, respectively. Non-distributable funds comprise the reserve fund and tangible assets revaluation fund. The reserve fund was created under Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities.

Dividends declared in 2011 for 2010 were BYR 7.46 per each ordinary share and BYR 300 per each preference share (all at statutory historical cost before restatement for hyperinflation). The total amount of dividends comprised BYR 37,057 million (after restatement for hyperinflation).

(in millions of Belarusian Rubles unless otherwise stated)

26. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments, which are not reflected in the statement of financial position, in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk.

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

The Group uses the same credit control and management policies in undertaking commitments to extend loans and provide guarantees and letters of credit as it does for operations in the statement of financial position.

As at 31 December 2011 and 2010 provision on guarantees and other commitments amounted to BYR 129,434 million and BYR 76,414 million, respectively (Note 24).

As at 31 December 2011 and 2010 the nominal or contract amounts were:

	31 December 2011	**31 December 2010 (restated)**
Commitments on loans and unused credit lines	2,427,110	3,138,316
Letters of credit issued	1,402,142	1,656,172
- covered	*108,191*	*237,289*
- uncovered	*1,293,951*	*1,418,883*
Guarantees issued and similar commitments	394,201	175,651
- financial	*370,532*	*152,156*
- non-financial	*23,669*	*23,495*
Total contingent liabilities and credit commitments	4,223,453	4,970,139

As at 31 December 2011 and 2010 commitments on loans and unused credit lines include commitments to issue loans below market rates. Information about these commitments is disclosed in Note 16.

Operating lease commitments **-** The Group had no material commitments on operating leases outstanding as at 31 December 2011 and 2010.

Legal proceedings **-** From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management believes that no material unaccrued losses will be incurred and accordingly no provision was created in these consolidated financial statements.

(in millions of Belarusian Rubles unless otherwise stated)

***Pensions and retirement plans* -** Employees are entitled for pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2011 and 2010 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

27. TRANSACTIONS WITH RELATED PARTIES

Group's related parties' balances as at 31 December 2011 and 2010 are as follows:

	31 December 2011		31 December 2010 (restated)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Due from the National Bank of the Republic of Belarus	1,464,549	1,464,549	1,784,097	1,784,097
Due from banks	117,952	886,748	3,493	734,364
- state entities (under common control of the State)	117,952	-	3,493	-
Derivative financial instruments (assets)	3,878,011	3,878,110	17,107	216,198
- Government bodies (the National Bank)	3,878,011	-	17,107	-
Loans to customers, gross	22,137,838	35,196,129	29,713,220	49,362,486
- state entities (under common control of the State)	22,096,063	-	29,624,534	-
- Government bodies	37,203	-	83,069	-
- key management personnel	4,572	-	5,617	-
Allowance for impairment losses on loans to customers	(1,120,545)	(1,780,884)	(1,152,251)	(1,724,504)
- state entities (under common control of the State)	(1,119,300)	-	(1,149,150)	-
- Government bodies	(1,245)	-	(3,101)	-
Investments in securities available for sale	2,562,332	2,707,564	3,073,172	3,303,412
- Government bodies	2,090,882	-	2,556,222	-
- state entities (under common control of the State)	471,450	-	516,950	-
Current income taxes asset	6,435	6,435	23,461	23,461
Other assets	25,593	548,484	148,440	707,871
- Government bodies	23,208	-	94,045	-
- state entities (under common control of the State)	2,385	-	54,395	-
Due to the National Bank of the Republic of Belarus	140,000	140,000	8,087,013	8,087,013
Due to banks	1,164,158	9,127,997	2,285,413	8,771,194
- state entities (under common control of the State)	1,164,158	-	2,285,413	-
Derivative financial instruments (liabilities)	2,689	7014	--	10
- Government bodies (the National Bank)	2,689	-	-	-

(in millions of Belarusian Rubles unless otherwise stated)

	31 December 2011		31 December 2010 (restated)	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Customer accounts	9,277,108	17,651,095	15,939,692	21,635,237
- Government bodies	4,877,811	-	10,455,405	-
- state entities (under common control of the State)	4,176,642	-	5,213,122	-
- shareholders of the Bank	214,577	-	265,274	-
- key management personnel	8,078	-	5,891	-
Debt securities issued	6,784,163	7,699,299	4,057,598	4,583,306
- Government bodies	2,679,386	-	3,917,069	-
- state entities (under common control of the State)	4,083,527	-	119,703	-
- shareholders of the Bank	21,250	-	20,826	-
Current income taxes liability	72,713	72,713	18,829	18,829
Commitments to provide loans at below market rates	97,773	97,773	201,526	201,526
- state entities (under common control of the State)	97,773	-	201,526	-
Other liabilities	6,873	357,520	7,066	326,484
- Government bodies	6,764	-	6,225	-
- state entities (under common control of the State)	109	-	789	-
- shareholders	-	-	52	-
Guarantees issued and similar commitments	326,622	394,201	116,458	175,651
- Government bodies	6,232	-	7,466	-
- state entities (under common control of the State)	320,390	-	108,992	-
Letters of credit issued	944,773	1,402,142	992,738	1,656,172
- state entities (under common control of the State)	942,115	-	974,510	-
- Government bodies	2,658	-	18,228	-
Commitments on loans and unused credit lines	1,417,760	2,427,110	1,707,859	3,138,316
- state entities (under common control of the State)	1,416,540	-	1,691,610	-
- Government bodies	615	-	14,200	-
- key management personnel	605	-	2,049	-
Provision for guarantees and other commitments	92,060	129,434	49,082	76,414
- state entities (under common control of the State)	92,060	-	49,082	-

(in millions of Belarusian Rubles unless otherwise stated)

Included in the consolidated income statement for the years ended 31 December 2011 and 2010 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2011		Year ended 31 December 2010 (restated)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	4,155,435	8,556,014	2,669,807	5,851,899
-state entities (under common control of the State) – customers	3,631,313		2,461,989	
-Government bodies	523,530		206,212	
-state entities (under common control of the State) - banks	297		1,346	
-key management personnel	295		260	
Fee and commission income	286,882	754,031	277,649	677,645
-state entities (under common control of the State)	278,054		268,206	
-Government bodies	5,482		6,151	
-shareholders of the Bank	3,345		3,292	
-key management personnel	1		-	
Fee and commission expenses	11,346	118,513	9,136	79,208
-state entities (under common control of the State)	11,144		9,086	
-Government bodies	194		48	
-key management personnel	6		2	
-shareholders of the Bank	2		-	
Net loss/(gain) on investments available for sale	1,558	1,888	(372)	(14,636)
-Government bodies	1,558		(291)	
-state entities (under common control of the State)	-		(81)	
Interest expenses	3,925,308	6,023,349	2,174,507	3,547,361
-Government bodies	1,461,768		1,101,065	
-National Bank (under common control of the State)	1,746,399		729,754	
-state entities (under common control of the State) - banks	372,784		224,695	
-state entities (under common control of the State) -customers	301,198		87,763	
-shareholders of the Bank	42,887		31,033	
-key management personnel	272		197	
Allowance for impairment for interest bearing assets	923,693	1,656,791	581,903	1,151,646
-state entities (under common control of the State)	922,141		594,513	
-Government bodies	1,551		(12,610)	
Other provisions	(52,521)	126,208	17,754	40,497
-state entities (under common control of the State)	(52,521)		17,754	
Other income	30,493	392,421	46,916	472,277
-state entities (under common control of the State)	30,360		46,561	
-Government bodies	104		313	
-shareholders of the Bank	29		42	
Operating expenses	472,225	1,352,226	322,831	1,341,236
-Government bodies	457,602		308,104	
-key management personnel (remuneration)	13,713		14,046	
-state entities (under common control of the State)	910		681	
Income tax expense	418,357	418,357	246,028	246,028

(in millions of Belarusian Rubles unless otherwise stated)

During the years ended 31 December 2011 and 2010 key management personnel remuneration included in operating expenses caption in the table above comprised of short-term employee benefits.

28. 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. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

	31 December 2011		31 December 2010 (пересчитано)	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
FINANCIAL ASSETS:				
Cash and balances with the National Bank of the Republic of Belarus	2,126,082	2,126,082	2,457,795	2,457,795
Due from banks	886,748	886,748	734,364	734,364
Loans to customers	33,415,245	33,006,179	47,637,982	47,830,523
Derivative financial instruments	3,878,110	3,878,110	216,198	216,198
Investments in debt securities available for sale	2,304,903	2,304,903	2,911,209	2,911,209
Other financial assets	27,605	27,605	71,596	71,596
FINANCIAL LIABILITIES:				
Due to the National Bank of the Republic of Belarus	140,000	140,000	8,087,013	8,087,013
Due to banks	9,127,997	9,127,997	8,771,194	8,771,194
Derivative financial instruments	7,014	7,014	10	10
Customer accounts	17,651,095	17,533,970	21,635,237	21,833,585
Debt securities issued	7,699,299	7,699,299	4,583,306	4,620,730
Other financial liabilities	83,109	83,109	71,550	71,550

The methods and assumptions used for determination of fair value of financial instruments that are not carried at fair value in these financial statements are presented below.

Financial instruments, which fair value approximates the carrying value

When the financial instruments are liquid and have short-term maturities (less than 3 months) it is assumed that their fair value approximates their carrying value. This assumption is applied also to due from/to banks, demand deposits and deposits with no maturity.

Financial instruments with fixed and floating rates

The fair value of financial instruments with fixed interest rates (loans to corporate customers, corporate customer accounts), which are measured at amortised cost, is calculated as a net present value of cash flows by applying the prevailing market rates on similar instruments.

Loans to individuals are granted mainly at fixed interest rates, though the Bank uses the opportunity to unilaterally review interest rates, based on market conditions, which is provided for in standard loan contracts. The fair value of loans to individuals as at the reporting date approximates their carrying amount.

The fair value of customer accounts with floating interest rates as at the reporting date approximates their carrying amount.

The fair value of unquoted debt securities of the Group is based on the discounted cash flows by applying interest rates for similar debt securities based on the remaining maturities.

The fair value of equity investments of the Group cannot be reliably measured, as it is impossible to obtain market information or apply any other valuation technique for such financial instruments.

Measurement of financial instruments

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Determination of fair value for assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that have no active market fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

Determination of fair value for financial instruments

The fair value of the short-term financial assets and liabilities at fair value through profit or loss been calculated using valuation techniques (interest rate parity model), where significant model inputs are observable in the market (Level 2).

The fair value of the long-term financial assets and liabilities at fair value through profit or loss such as back to back deposits with the National Bank been calculated using valuation techniques (interest rate parity model), where significant model inputs are not observable in the market or require significant adjustments to observable data (Level 3). The rates for foreign currency used in calculation were determined based on observable risk-free interest rates with significant adjustments on default margins based on the counterparty ratings, which were non observable due to lack of active markets of similar long-term instruments. The rates for the Belarusian Ruble used in calculation were determined based on rate of refinancing set by the NBRB with adjustments on default margins, which were non observable due to lack of active markets of similar long-term instruments.

The amounts of gains and losses recognized in gain and loss on foreign currency derivatives in 2011 and 2010 for financial assets and liabilities measured at Level 3 were BYR 5,219,720 million and BYR 209,546 million, respectively.

For financial assets and liabilities measured at Level 3 the Bank monitors the sensitivity of the Bank's financial assets and liabilities to volatility of interest rate, which are used in the calculation of their fair value. The scenario used for this analysis supposes a percent change in interest rates and assumes that all other variables remain constant. Thus, a 3 percent increase in interest rate on foreign currencies operations as at 31 December 2011 would have decrease the profit before income tax and loss on net monetary position by BYR 339,835 million, and a 1 percent decrease in interest rate on foreign currencies operations as at 31 December 2011 would have increase the profit before income tax and loss on net monetary position by BYR 122,302 million. A 10 percent increase in interest rate on the Belarusian Ruble operation as at 31 December 2011 would have increase, respectively, profit before income tax and loss on net monetary position by BYR 113,902 million and a 5 percent decrease in interest rate on the Belarusian Ruble operation as at 31 December 2011 would have decrease, respectively, profit before income tax and loss on net monetary position by BYR 69,289 million.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

In millions of Belarusian Rubles

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Derivative financial instruments	-	99	3,878,011	3,878,110
Investments in debt securities available for sale	1,151,782	-	1,153,121	2,304,903
Total	1,151,782	99	5,031,132	6,183,013
FINANCIAL LIABILITIES:				
Derivative financial instruments	-	7,014	-	7,014
Total	-	7,014	-	7,014

31 December 2010 (restated)	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Derivative financial instruments	-	18,077	198,121	216,198
Investments in debt securities available for sale	617,184	-	2,294,025	2,911,209
Total	617,184	18,077	2,492,146	3,127,407
FINANCIAL LIABILITIES:				
Derivative financial instruments	-	10	-	10
Total	-	10	-	10

29. CAPITAL MANAGEMENT AND REGULATORY MATTERS

The Group manages its capital to ensure compliance with regulatory requirements and ability to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the equity capital adequacy ratio is determined by comparing the Bank' own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The management of the Bank considers weighted average cost of capital and risks associated with each class of capital, and balances its overall capital structure through dividend policy, issues of new shares and debt as well as the redemption thereof.

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

As at 31 December 2011 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 10,052,271 million and BYR 10,092,783 with ratios of 25.7% and 25.8%, respectively.

As at 31 December 2010 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 12,985,575 million and BYR 12,994,909 million, respectively, with ratios of 26%.

30. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. The Group follows approved documented risk management policy. This policy provides for a range of interconnected measures and steps in order to prevent and minimize losses which can be caused by risks inherent to bank's activity. A description of the Group's risk management policies in relation to those risks follows.

The Group manages the following risks:

Credit risk

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

To minimize credit risk the Group pursues the following principles of lending process:

- collective decision making;
- segregation of lending decision authority based on the amount of risk to be taken;
- decision making based on weighted risk assessment;
- monitoring of lending operations until complete discharge of obligations by counterparty to the Group;
- overall valuation of risk to be taken at the stage of discussion and decision-making;
- optimization of decision-making system and concentration on individuals' loan portfolio at the branches and head office level.

Risk management of credit risk is carried out in three main directions: strategic management of credit risk, risk management of a specific credit transaction, the Bank's loan portfolio management.

Strategic management is principally the development and maintenance of the actual state of the methodological framework for the implementation of active banking operations.

Risk management of a specific credit transaction is a process aimed at minimizing risks for each credit transaction, including:

- credit ranking of organizations based on assessment of credit history and financial performance, to determine their ability to timely and fully fulfill the current and future obligations and determine the degree of risk that the Bank accepts while carrying out active banking operations;
- determination and review of limits for the total amount of claims to one borrower (a group of related borrowers), including the individual limits, which allows the Bank to monitor the financial condition of major borrowers;
- review of business plans for significant investment projects by specialized subdivisions, monitoring of borrowers' compliance with indicators of financial and operational activities set in business plans for investment projects.

The Bank's loan portfolio management is a process of determining direct actions on generated loan portfolio management, which includes: monitoring of the Bank's loan portfolio, dealing with bad debts, formation and management of reserves for impairment losses on assets (contingent liabilities), subject to credit risk.

(in millions of Belarusian Rubles unless otherwise stated)

Monitoring of the Bank's loan portfolio is carried out by means of control over each credit line, industry, as well as through analysis and determination of individual limits for the total amount of claims to one borrower (a group of related borrowers) at the Bank's Credit Committee level. The control of compliance with the established limits is carried out for each borrower.

To deal with bad debts the Bank approves and informs its bank branches about the monthly schedule of the bad debts level in Bank's loans; and strict control of compliance with this schedule is established. Bank branches receive methodical and practical assistance in recovery of overdue loans, sale of collateral, work with judicial and executive authorities. A database of the realizable property was created and work on its sale is carried out.

The Group obtains collateral and guarantees from corporate customers and individuals. The required amount and quality of collateral under each loan agreement is determined based on the credit rating of organizations. Credit risk and the level of collateral are constantly monitored.

The banking sector organizations are generally exposed to credit risk in respect of financial instruments and contingent liabilities. The Group's credit risk is concentrated in the Republic of Belarus.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on:

	31 December 2011	**31 December 2010 (restated)**
Balances with the National Bank	1,374,479	1,677,715
Due from banks	886,748	734,364
Derivatives	3,878,110	216,198
Loans to customers	33,415,245	47,637,982
Investments in debt securities available for sale	2,304,903	2,911,209
Other financial assets	27,605	71,596
Guarantees issued and similar commitments not secured by cash	370,532	152,156
Letters of credit not collateralized by customer deposits	1,293,951	1,418,883
Commitments on loans and unused credit lines	2,427,110	3,138,316

Financial assets are graded according to the current credit rating of the issuer, assigned by an internationally regarded agency Fitch Ratings Ltd as of the end of respective reporting period. Balances with the National Bank and state securities are graded according to the sovereign rating of the Republic of Belarus.

The following table details the counterparty credit ratings of financial assets held by the Group:

	AA	**A**	**BBB**	**Below BBB**	**Not rated**	**31 December 2011 Total**
Balances in the National Bank	-	-	-	1,374,479	-	1,374,479
Due from banks	37,593	567,674	123,551	129,258	28,672	886,748
Derivatives	-	99	-	3,878,011	-	3,878,110
Loans to customers	-	-	-	-	33,415,245	33,415,245
Investments in securities available for sale	-	-	-	1,152,122	1,555,442	2,707,564
Other financial assets	-	-	-	-	27,605	27,605

(in millions of Belarusian Rubles unless otherwise stated)

	AA	A	BBB	Below BBB	Not rated	31 December 2010 (restated) Total
Balances in the National Bank	-	-	-	1,677,715	-	1,677,715
Due from banks	637,926	14,008	56,235	22,182	4,013	734,364
Derivatives	-	-	-	216,198	-	216,198
Loans to customers	-	-	-	-	47,637,982	47,637,982
Investments in securities available for sale	-	-	-	617,894	2,685,518	3,303,412
Other financial assets	-	-	-	-	71,596	71,596

Geographical concentration

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

	Belarus	Other CIS countries	OECD countries	Other countries - non-OECD	31 December 2011 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	2,126,082	-	-	-	2,126,082
Due from banks	152,850	69,806	663,678	414	886,748
Derivative financial instruments	3,878,011	-	99	-	3,878,110
Loans to customers	33,415,245	-	-	-	33,415,245
Investments in debt securities available for sale	2,707,491	-	73	-	2,707,564
Other financial assets	27,605	-	-	-	27,605
TOTAL FINANCIAL ASSETS	42,307,284	69,806	663,850	414	43,041,354
FINANCIAL LIABILITIES:					
Due to the National Bank of the Republic of Belarus	140,000	-	-	-	140,000
Due to banks	2,432,185	2,715,933	3,979,879	-	9,127,997
Derivative financial instruments	6,482	445	87	-	7,014
Customer accounts	16,866,855	72,222	700,736	11,282	17,651,095
Debt securities issued	7,699,299	-	-	-	7,699,299
Commitments to provide loans at below market rates	97,773	-	-	-	97,773
Other financial liabilities	79,842	-	3,097	170	83,109
TOTAL FINANCIAL LIABILITIES	27,322,436	2,788,600	4,683,799	11,452	34,806,287
OPEN POSITION	14,984,848	(2,718,794)	(4,019,949)	(11,038)	

(in millions of Belarusian Rubles unless otherwise stated)

	Belarus	Other CIS countries	OECD countries	Other countries - non- OECD	31 December 2010 (restated) Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	2,457,795	-	-	-	2,457,795
Due from banks	23,029	59,119	651,408	808	734,364
Derivative financial instruments	216,131	67	-	-	216,198
Loans to customers	47,637,982	-	-	-	47,637,982
Investments in debt securities available for sale	3,303,308	-	104	-	3,303,412
Other financial assets	71,558	-	38	-	71,596
TOTAL FINANCIAL ASSETS	53,709,803	59,186	651,550	808	54,421,347
FINANCIAL LIABILITIES:					
Due to the National Bank of the Republic of Belarus	8,087,013	-	-	-	8,087,013
Due to banks	3,662,012	1,748,445	3,348,212	12,525	8,771,194
Derivative financial instruments	-	-	10	-	10
Customer accounts	21,030,411	593,316	3,896	7,614	21,635,237
Debt securities issued	4,583,306	-	-	-	4,583,306
Commitments to provide loans at below market rates	201,526	-	-	-	201,526
Other financial liabilities	70,993	-	557	-	71,550
TOTAL FINANCIAL LIABILITIES	37,635,261	2,341,761	3,352,675	20,139	43,349,836
OPEN POSITION	16,074,542	(2,282,575)	(2,701,125)	(19,331)	

Liquidity risk

Liquidity risk – is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

In order to minimize liquidity risk Treasury, Department of Strategic Development, Finance and Economic Department, Department of Active Banking Operations, Securities Department, Foreign Trade Finance Department, Corporate Business Department, Foreign Currency Regulation and Control Department, Settlement Center perform planning and analysis of the Bank's liquidity.

The Bank's liquidity planning is carried out through the following instruments: budgeted statement of financial position, payments calendar, a daily forecast of liquidity position, establishment of differentiated limits on active and passive operations.

The Bank's liquidity analysis includes:

- factor analysis, which is conducted to determine key factors affecting liquidity and the extent of their influence;
- analysis of assets and liabilities structure;
- preparation of analytical materials and formulation of recommendations on improvement of the structure and quality of assets and liabilities, liquidity indicators.

(in millions of Belarusian Rubles unless otherwise stated)

The Bank's liquidity management policy is determined by the Management Board. Decisions on liquidity operational management are made by the Finance Committee, Credit Committee, Chairman of the Management Board, Deputy Chairman of the Management Board supervising Treasury, Head of Treasury and deputies according to their authority, determined by the local legislative documents of the Bank and job descriptions.

The Treasury manages liquidity risk through performing the operations depending on current and forecasted liquidity position of the Bank (liquidity gap or surplus). Maintenance of liquidity position is achieved through daily forecasts and measures taken by Treasury with regard to optimization of financial result from alternative transactions. Considering "profitability-liquidity" alternative, preference is given to liquidity position.

An analysis of the liquidity and interest rate risks is presented below. It presents the remaining contractual maturity of non-derivative financial liabilities calculated for undiscounted cash flows on financial liabilities (both principal and interest cash flows) based on the earliest date on which the Group can be required to pay.

	Weighted average nominal interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2011 Total
FINANCIAL LIABILITIES:							
Due to banks	25.45%	1,564,115	1,042,724	884,473	25,938	36,772	3,554,022
Customer accounts	11.97%	2,786,475	4,047,295	1,966,366	1,977,265	403,892	11,181,293
Debt securities issued	6.32%	60,290	242,332	535,190	4,190,598	658,760	5,687,170
Total interest bearing liabilities at fixed rates		4,410,880	5,332,351	3,386,029	6,193,801	1,099,424	20,422,485
Due to the National Bank of the Republic of Belarus	69.00%	-	7,940	140,529	-	-	148,469
Due to banks	12.16%	108,426	847,970	1,051,387	4,599,880	3,487,657	10,095,320
Customer accounts	37.67%	4,852,006	464,362	1,274,090	3,707,021	657,020	10,954,499
Debt securities issued	45.26%	163,688	323,544	1,506,935	6,654,202	60,103,353	68,751,722
Total interest bearing liabilities at variable rates		5,124,120	1,643,816	3,972,941	14,961,103	64,248,030	89,950,010
Total interest bearing liabilities		9,535,000	6,976,167	7,358,970	21,154,904	65,347,454	110,372,495
Due to banks		17,191	-	-	-	-	17,191
Customer accounts		77,675	-	-	14	106	77,795
Debt securities issued		11,147	-	-	-	-	11,147
Commitments to provide loans at below market rates		89,388	439	7,100	846	-	97,773
Other financial liabilities		50,877	11,384	16,000	4,848	-	83,109
Financial guarantee contracts and letters of credit		1,260,002	173,493	111,073	117,367	2,548	1,664,483
Commitments on loans and unused credit lines		2,027,047	10,438	131,475	258,150	-	2,427,110
TOTAL FINANCIAL LIABILITIES		13,068,327	7,171,921	7,624,618	21,536,129	65,350,108	114,751,103

(in millions of Belarusian Rubles unless otherwise stated)

	Weighted average nominal interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2010 (restated) Total
FINANCIAL LIABILITIES:							
Due to the National Bank of the Republic of Belarus	1.88%	543,092	432	1,184,992	-	-	1,728,516
Due to banks	8.31%	1,624,797	300,032	777,702	18,695	29,369	2,750,595
Customer accounts	6.34%	1,639,776	2,941,356	1,682,827	4,196,915	2,159,890	12,620,764
Debt securities issued	6.43%	43,201	39,080	778,359	2,232,771	821,373	3,914,784
Total interest bearing liabilities at fixed rates		3,850,866	3,280,900	4,423,880	6,448,381	3,010,632	21,014,659
Due to the National Bank of the Republic of Belarus	10.50%	54,895	159,923	1,120,003	7,272,153	-	8,606,974
Due to banks	6.28%	88,989	497,904	1,417,011	3,325,400	2,515,598	7,844,902
Customer accounts	6.95%	5,554,981	414,105	1,234,929	4,741,977	10,895	11,956,887
Debt securities issued	11.45%	21,369	178,367	501,942	571,011	1,972,276	3,244,965
Total interest bearing liabilities at variable rates		5,720,234	1,250,299	4,273,885	15,910,541	4,498,769	31,653,728
Total interest bearing liabilities		9,571,100	4,531,199	8,697,765	22,358,922	7,509,401	52,668,387
Due to banks		3,485	-	-	-	-	3,485
Customer accounts		204,925	215,534	-	328	144	420,931
Commitments to provide loans at below market rates		196,910	-	4,616	-	-	201,526
Other financial liabilities		45,224	7,518	7,558	4,781	6,469	71,550
Financial guarantee contracts and letters of credit		1,295,552	11,535	88,310	172,873	2,769	1,571,039
Commitments on loans and unused credit lines		2,850,877	26,969	47,548	212,922	-	3,138,316
TOTAL FINANCIAL LIABILITIES		14,168,073	4,792,755	8,845,797	22,749,826	7,518,783	58,075,234

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

(in millions of Belarusian Rubles unless otherwise stated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Over -due	Maturity unde-fined	31 December 2011 Total
FINANCIAL ASSETS:								
Due from banks	867,556	-	-	-	-	-	-	867,556
Loans to customers	1,499,879	4,335,003	9,779,643	9,057,860	8,637,763	105,097	-	33,415,245
Investments in debt securities available for sale	9,017	15,088	64,173	1,676,135	539,315	1,175	-	2,304,903
Total interest bearing assets	2,376,452	4,350,091	9,843,816	10,733,995	9,177,078	106,272	-	36,587,704
Cash and balances with the National Bank of the Republic of Belarus	2,126,082	-	-	-	-	-	-	2,126,082
Derivative financial instruments	99	-	-	3,878,011	-	-	-	3,878,110
Due from banks	19,192	-	-	-	-	-	-	19,192
Investments in securities available for sale	-	-	-	-	-	-	402,661	402,661
Other financial assets	10,334	6,266	1,764	6,762	2,318	161	-	27,605
TOTAL FINANCIAL ASSETS	4,532,159	4,356,357	9,845,580	14,618,768	9,179,396	106,433	402,661	43,041,354
FINANCIAL LIABILITIES:								
Due to the National Bank of the Republic of Belarus	-	140,000	-	-	-	-	-	140,000
Due to banks	1,594,593	1,768,245	1,444,839	2,547,490	1,755,639	-	-	9,110,806
Customer accounts	7,386,723	4,223,920	2,286,331	3,228,367	447,959	-	-	17,573,300
Debt securities issued	54,606	223,222	502,064	3,113,556	3,794,704	-	-	7,688,152
Total interest bearing liabilities	9,035,922	6,355,387	4,233,234	8,889,413	5,998,302	-	-	34,512,258
Due to banks	17,191	-	-	-	-	-	-	17,191
Derivative financial instruments	7,014	-	-	-	-	-	-	7,014
Customer accounts	77,675	-	-	14	106	-	-	77,795
Debt securities issued	11,147	-	-	-	-	-	-	11,147
Commitments to provide loans at below market rates	89,388	439	7,100	846	-	-	-	97,773
Other financial liabilities	50,877	11,384	16,000	4,848	-	-	-	83,109
TOTAL FINANCIAL LIABILITIES	9,289,214	6,367,210	4,256,334	8,895,121	5,998,408	-	-	34,806,287
Liquidity gap	(4,757,055)	(2,010,853)	5,589,246	5,723,647	3,180,988			
Interest sensitivity gap	(6,659,470)	(2,005,296)	5,610,582	1,844,582	3,178,776			
Cumulative interest sensitivity gap	(6,659,470)	(8,664,766)	(3,054,184)	(1,209,602)	1,969,174			
Cumulative interest sensitivity gap as a percentage of total financial assets	(15%)	(20%)	(7%)	(3%)	5%			

(in millions of Belarusian Rubles unless otherwise stated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2010 (restated) Total
FINANCIAL ASSETS:								
Due from banks	714,576	-	-	-	-	-	-	714,576
Loans to customers	1,852,785	5,415,958	13,105,977	12,477,340	14,609,585	176,337	-	47,637,982
Investments in debt securities available for sale	1,492	232,766	83,862	1,724,573	868,516	-	-	2,911,209
Total interest bearing assets	2,568,853	5,648,724	13,189,839	14,201,913	15,478,101	176,337	-	51,263,767
Cash and balances with the National Bank of the Republic of Belarus	2,457,795	-	-	-	-	-	-	2,457,795
Derivative financial instruments	970	-	17,107	198,121	-	-	-	216,198
Due from banks	19,788	-	-	-	-	-	-	19,788
Investments in securities available for sale	-	-	-	-	-	-	392,203	392,203
Other financial assets	16,842	5,186	866	3,996	44,109	597	-	71,596
TOTAL FINANCIAL ASSETS	5,064,248	5,653,910	13,207,812	14,404,030	15,522,210	176,934	392,203	54,421,347
FINANCIAL LIABILITIES:								
Due to the National Bank of the Republic of Belarus	542,168	50,676	1,809,872	5,684,297	-	-	-	8,087,013
Due to banks	1,678,132	728,559	1,931,981	2,437,851	1,991,186	-	-	8,767,709
Customer accounts	7,087,261	3,196,377	2,326,033	7,000,596	1,604,039	-	-	21,214,306
Debt securities issued	31,510	152,083	1,041,690	1,709,051	1,648,972	-	-	4,583,306
Total interest bearing liabilities	9,339,071	4,127,695	7,109,576	16,831,795	5,244,197	-	-	42,652,334
Due to banks	3,485	-	-	-	-	-	-	3,485
Derivative financial instruments	10	-	-	-	-	-	-	10
Customer accounts	204,925	215,534	-	328	144	-	-	420,931
Commitments to provide loans at below market rates	196,629	131	4,766	-	-	-	-	201,526
Other financial liabilities	45,224	7,518	7,558	4,781	6,469	-	-	71,550
TOTAL FINANCIAL LIABILITIES	9,789,343	4,350,879	7,121,900	16,836,904	5,250,810	-	-	43,349,836
Liquidity gap	(4,725,095)	1,303,031	6,085,912	(2,432,874)	10,271,400			
Interest sensitivity gap	(6,770,217)	1,521,028	6,080,263	(2,629,882)	10,233,904			
Cumulative interest sensitivity gap	(6,770,217)	(5,249,189)	831,074	(1,798,808)	8,435,096			
Cumulative interest sensitivity gap as a percentage of total financial assets	(12%)	(10%)	2%	(3%)	15%			

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

Currently, a considerable part of customer deposits are short-term. However, these deposits are diversified by the number and type of customers.

Market risk

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

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

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed.

Interest rate risk

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

The Group is exposed to interest rate risks as entities in the Group borrow a part of funds at floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate assets and liabilities.

In order to effectively manage interest rate risk in the Bank the organizational structure of interest rate risk management, headed by the Supervisory Board and Management Board of the Bank, was determined; the appropriate tools to identify interest rate risk are used; systems of prudential and local estimates of interest rate risk operate; interest rate risk is monitored by structural divisions and branches of the Bank.

To minimize interest risk the Group uses the following instruments:

- centralized approach on setting interest rates on major types of placed and attracted resources;
- application, where necessary, interest rates on assets and liabilities linked to major financial market indicators (primarily to refinancing rate of the National Bank);
- borrowing and placement of funds preferably on terms that provide the Group with the right to change interest rates in case of change in market situation;
- preferential use of floating interest rates on attraction and allocation of resources;
- predominant use of standard contracts, with conditions, facilitating the reduction of interest rate risk;
- implementation of policy aimed at balanced position of assets and liabilities by maturities;
- permanent monitoring of interest margin, assets and liabilities subject to changes in interest rates;
- stress-testing.

(in millions of Belarusian Rubles unless otherwise stated)

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable" applied to floating rate financial instruments. The level of changes in the interest rate is determined by management. The sensitivity analysis below represents the effect of 5% increase/ 20% reduction in interest rates existing at the end of reporting period on the profit before taxation and loss on net monetary position of the Group assuming that the change took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

Impact on profit before tax and loss on net monetary position:

	31 December 2011		**31 December 2010 (restated)**	
	Interest rate +5%	**Interest rate -20%**	**Interest rate +5%**	**Interest rate -5%**
FINANCIAL ASSETS:				
Due from banks	16,366	(65,463)	29,893	(29,893)
Loans to customers	671,659	(2,686,636)	1,032,798	(1,032,798)
FINANCIAL LIABILITIES:				
Due to the National Bank of the Republic of Belarus	(7,000)	28,000	(318,050)	318,050
Due to banks	(281,289)	1,125,155	(303,034)	303,034
Customer accounts	(385,265)	1,541,059	(551,069)	551,069
Debt securities issued	(197,393)	789,571	(94,546)	94,546
Net impact on profit before income taxes and loss on net monetary position	(67,677)	270,705	(69,622)	69,622

The following table presents a sensitivity analysis of fair value risk, which has been determined based on "reasonably possible changes in the risk variable" applied to fixed rate financial instruments carried at fair value. The level of changes in the fair value risk is determined by management. The sensitivity analysis below represents the effect of 5% increase/reduction in market interest rates existing at the end of reporting period on the other comprehensive income of the Group assuming that the change took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

Impact on the other comprehensive income:

	31 December 2011		**31 December 2010 (restated)**	
	Interest rate +5%	**Interest rate -20%**	**Interest rate +5%**	**Interest rate -5%**
Investments in securities available for sale	-	-	(1,964)	2 064

Currency risk

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

While performing foreign exchange operations regional offices, local branch offices, the Operational Department, as well as the Foreign Currency Regulation and Control Department and Treasury continuously monitor the status of open currency position in order to fulfill the requirements of the legislation and local regulatory legal acts as well as for operational management of currency risk.

For control purposes in relation to the Bank's open currency position the limitations on the following indicators are imposed:

- values of the total open currency position;
- values of net open currency position for each foreign currency (except for bullions);
- values of net open currency position on forward transactions for each foreign currency (except for bullions).
- assessment of the Bank’s liquidity position to identify facts, negatively characterizing the liquidity management system.

Calculation of the standard open currency position is carried out in accordance with the regulations of the National Bank of the Republic of Belarus.

Based on the open currency position ratio set for the Bank as a whole, performance results of the Bank’s regional offices in the currency market, the Foreign Currency Regulation and Control Department sets limitations on the certain indicators of open currency position for regional offices, which can be reviewed in connection with their redistribution among regional offices, and changes in factors effecting the value of the currency risk. Limitations on the certain indicators of open currency position for local branch offices are set by regional offices independently in the framework of limitations set for them.

In order to minimize currency risk the Treasury establishes limits for foreign exchange transactions: limits on positions, limits on transactions and stop losses.

During stress-testing the cumulative effect of possible losses is assessed for the overall open currency position of the Bank in extreme market conditions resulted from sharp foreign currency rates fluctuations.

(in millions of Belarusian Rubles unless otherwise stated)

The Group's exposure to currency risk is presented in the table below:

	BYR	**USD** 1USD= BYR 8,350.00	**EUR** 1EUR= BYR 10,800.00	**RUB** 1RUB= BYR 261.00	**Other currencies**	**31 December 2011 Total**
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	1,737,309	200,150	110,659	74,286	3,678	2,126,082
Due from banks	24,575	169,176	613,544	75,775	3,678	886,748
Derivative financial instruments	3,878,110	-	-	-	-	3,878,110
Loans to customers	23,076,574	4,349,713	5,244,166	744,792	-	33,415,245
Investments in securities available for sale	2,464,715	211,509	-	31,340	-	2,707,564
Other financial assets	17,979	7,679	1,938	9	-	27,605
TOTAL FINANCIAL ASSETS	31,199,262	4,938,227	5,970,307	926,202	7,356	43,041,354
FINANCIAL LIABILITIES:						
Due to the National Bank of the Republic of Belarus	140,000	-	-	-	-	140,000
Due to banks	2,419,917	2,699,454	3,992,088	16,538	-	9,127,997
Derivative financial instruments	7,014	-	-	-	-	7,014
Customer accounts	9,507,292	4,903,601	2,547,418	690,792	1,992	17,651,095
Debt securities issued	4,220,888	2,737,264	738,901	2,246	-	7,699,299
Commitments to provide loans at below market rates	97,773	-	-	-	-	97,773
Other financial liabilities	67,335	1,094	14,664	16,0	-	83,109
TOTAL FINANCIAL LIABILITIES	16,460,219	10,341,413	7,293,071	709,592	1,992	34,806,287
OPEN POSITION	14,739,043	(5,403,186)	(1,322,764)	216,610	5,364	

Derivative financial instruments

Fair value of the derivatives is included in the currency analysis presented above and the following table presents further analysis of currency risk for derivative financial instruments as at 31 December 2011:

	BYR	**USD** 1USD= BYR 8,350.00	**EUR** 1EUR= BYR 10,800.00	**RUB** 1RUB= BYR 261.00	**Other currencies**	**31 December 2011 Total**
Claims on forward contracts	12,750	5,551,089	1,390,404	-	-	6,954,243
Obligations on forward contracts	(2,973,782)	(121,074)	(108,000)	(95,073)	-	(3,297,929)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(2,961,032)	5,430,015	1,282,404	(95,073)	-	
TOTAL OPEN CURRENCY POSITION	11,778,011	26,829	(40,360)	121,537	5,364	

(in millions of Belarusian Rubles unless otherwise stated)

	BYR	USD 1USD= BYR 3,000.00	EUR 1EUR= BYR 3,972.60	RUB 1RUB= BYR 98.44	Other currencies	31 December 2010 (restated) Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	2,208,615	132,551	68,000	47,112	1,517	2,457,795
Due from banks	11,484	244,337	412,513	64,849	1,181	734,364
Derivative financial instruments	216,198	-	-	-	-	216,198
Loans to customers	40,541,422	2,954,884	3,830,138	311,538	-	47,637,982
Investments in securities available for sale	3,303,412	-	-	-	-	3,303,412
Other financial assets	66,248	3,115	2,227	6	-	71,596
TOTAL FINANCIAL ASSETS	46,347,379	3,334,887	4,312,878	423,505	2,698	54,421,347
FINANCIAL LIABILITIES:						
Due to the National Bank of the Republic of Belarus	8,087,013	-	-	-	-	8,087,013
Due to banks	3,642,063	1,682,391	3,442,186	4,541	13	8,771,194
Derivative financial instruments	10	-	-	-	-	10
Customer accounts	16,230,105	3,082,158	1,892,463	430,415	96	21,635,237
Debt securities issued	2,244,166	2,126,400	212,707	33	-	4,583,306
Commitments to provide loans at below market rates	201,526	-	-	-	-	201,526
Other financial liabilities	69,432	495	1,619	4	-	71,550
TOTAL FINANCIAL LIABILITIES	30,474,315	6,891,444	5,548,975	434,993	109	43,349,836
OPEN POSITION	15,873,064	(3,556,557)	(1,236,097)	(11,488)	2,589	

Derivative financial instruments

Fair value of the derivatives is included in the currency analysis presented above and the following table presents further analysis of currency risk for derivative financial instruments as at 31 December 2010:

	BYR	USD 1USD= BYR 3,000	EUR 1EUR= BYR 3,972.60	RUB 1RUB= BYR 98.44	Other currencies	31 December 2010 (restated) Total
Claims on forward contracts	-	3,705,388	203,099	46,828	-	3,955,315
Obligations on forward contracts	(3,858,666)	(224,198)	(24,870)	-	-	(4,107,734)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(3,858,666)	3,481,190	178,229	46,828	-	
TOTAL OPEN CURRENCY POSITION	12,014,398	(75,367)	(1,057,868)	35,340	2,589	

(in millions of Belarusian Rubles unless otherwise stated)

Currency risk sensitivity

The following table details the Group's sensitivity to an increase and decrease in the USD, EUR and RUB against the BYR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. At 31 December 2011 the management of the Group analyzed sensitivity to 15% increase and 10% decrease in rates of major foreign currencies used by the Group (US dollar, Euro and Russian Ruble). At 31 December 2010 the management of the Group in connection with volatility in the financial market analyzed sensitivity to 15% increase and 10% decrease in rates of major foreign currencies used by the Group (US dollar, Euro and Russian Ruble). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for an anticipated value change in foreign currency rates.

	31 December 2011		**31 December 2010 (restated)**	
	USD/BYR +10%	**USD/BYR -5%**	**USD/BYR +15%**	**USD/BYR -10%**
Impact on profit before taxation and loss on net monetary position	2,683	(1,341)	(11,305)	7,537
	EUR/BYR +10%	**EUR/BYR -5%**	**EUR/BYR +15%**	**EUR/BYR -10%**
Impact on profit before taxation and loss on net monetary position	(4,036)	2,018	(158,680)	105,787
	RUB/BYR +10%	**RUB/BYR -5%**	**RUB/BYR +15%**	**RUB/BYR -10%**
Impact on profit before taxation and loss on net monetary position	12,154	(6,077)	5,301	(3,534)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while 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 results should not be interpolated or extrapolated.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In case of negative fluctuations of securities market, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas it can affect certain assets that are held at fair value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

31. SUBSEQUENT EVENTS

Over the period 1 January 2012 to the date of authorization of these consolidated financial statements the exchange rate of Belarusian ruble revalued marginally against the currency basket by 0.55%.

There is relatively high level inflation in Belarus. According to official statistics grows of consumer prices for the three months of 2012 amounted to 5%.

At the date of authorization of these financial statements for issue the refinancing rate of the National Bank of the Republic of Belarus has decreased to 36% (45% as at 31 December 2011).

Dividends declared in 2012 based on results of 2010 were BYR 5.75 per each ordinary share and BYR 300 per each preference share (all at statutory historical cost before restatement for hyperinflation). The total amount of dividends comprised BYR 37,057 million (after restatement for hyperinflation).

32. OPERATING ENVIRONMENT

Economy of the Republic of Belarus

The economy of the Republic of Belarus has recently been characterized by high rates of inflation, significant changes in foreign currency exchange rates, a relatively high level of taxation and a high degree of State regulation. Business legislation of the Republic of Belarus constantly changes. Future economic development to a large extent depends on the effectiveness of measures taken by the Belarusian government and is outside the control of the Group. The recoverability of the Group's assets and ability to maintain or pay debts as they mature is in part dependent on the future direction and results of the economic policy of the government of the Republic of Belarus. Management of the Bank has made its best estimates of recoverability and classification assets and liabilities. However, uncertainty stated above may remain and have significant influence on the operations of the Group.

Legislation

Certain provisions of Belarusian business and tax legislation in particular may contain different treatments and may be applied inconsistently by different state institutions. In addition, interpretations made by Management may be different from official interpretations and compliance established by law may be changed by the authorities. As a result, the Group may be subject to additional tax payments and fines and other preventive actions. Management of the Group considers that it has made the required tax and other payments and no additional provisions are needed in the financial statements. The previous financial years remain open for consideration by the authorities.