BELGAZPROMBANK

Financial Statements
For the Year Ended 31 December 2011

BELGAZPROMBANK

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

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

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- making an assessment of the Bank'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 Bank;
- maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting rules of the Republic of Belarus;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing financial and other irregularities.

The financial statements of the Bank for the year ended 31 December 2011 were approved on 1 March 2012 by the Chairman of the Management Board of Belgazprombank.

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
1 March 2012
Minsk

Chief Accountant
T. Pivovar
1 March 2012
Minsk

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Shareholders of Belarusian-Russian Belgazprombank Open Joint Stock:

We have audited the accompanying financial statements of Belarusian-Russian Belgazprombank Joint Stock ("Belgazprombank" or the "Bank"), which comprise the balance sheet as at 31 December 2011, the corresponding income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Deloitte & Touche

1 March 2012
Minsk

BELGAZPROMBANK

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
Interest income	4, 28	920,117	597,533
Interest expense	4, 28	(485,230)	(271,441)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		434,887	326,092
Provision for impairment losses on interest bearing assets	5, 28	(113,814)	(52,651)
Recoveries of assets previously written off		16,880	18,036
NET INTEREST INCOME		337,953	291,477
Net (loss)/gain on foreign exchange operations	6	(1,273,039)	48,414
Net gain on operations with financial instruments at fair value through profit or loss	7	1,506,881	64,459
Fee and commission income	8, 28	186,199	138,531
Fee and commission expense	8	(68,984)	(26,048)
Net gain on operations with precious metals		38,911	876
Other provisions	5	(18,849)	(8,350)
Other income	9	12,462	11,554
NET NON-INTEREST INCOME		383,581	229,436
OPERATING INCOME		721,534	520,913
OPERATING EXPENSES	10, 28	(280,167)	(260,582)
PROFIT BEFORE INCOME TAX AND LOSS ON NET MONETARY POSITION		441,367	260,331
Income tax expense	11	(66,154)	(52,490)
PROFIT BEFORE LOSS ON NET MONETARY POSITION		375,213	207,841
Loss on net monetary position due to inflation		(668,059)	(96,412)
NET (LOSS)/PROFIT		(292,846)	111,429

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
1 March 2012
Minsk

Chief accountant
T. Pivovar
1 March 2012
Minsk

The notes on pages 10-60 form an integral part of these financial statements.

BELGAZPROMBANK

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
NET (LOSS)/PROFIT	(292,846)	111,429
OTHER COMPREHENSIVE (LOSS)/INCOME		
Transfer of comprehensive income to profit or loss upon disposal of investments available for sale	(474)	(298)
Change in fair value of investments available for sale	(1,887)	470
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME	(2,361)	172
TOTAL COMPREHENSIVE (LOSS)/INCOME	(295,207)	111,601

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
1 March 2012
Minsk

Chief accountant
T. Pivovar
1 March 2012
Minsk

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BELGAZPROMBANK

BALANCE SHEET
AS AT 31 DECEMBER 2011
(in millions of Belarusian Rubles)

	Notes	31 December 2011	31 December 2010
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	12	662,711	452,132
Precious metals		51,215	2,594
Securities at fair value through profit or loss	13, 28	587,020	281,563
Derivative financial instruments, assets	14	1,114,857	92,556
Due from banks and other financial institutions	15, 28	1,038,132	336,954
Loans to customers	16, 28	4,056,297	3,723,587
Investments available for sale	17	18,450	222,326
Non-current assets held for sale		1,532	6,104
Property, equipment and intangible assets	18	245,175	195,621
Other assets	19	77,078	102,278
TOTAL ASSETS		7,852,467	5,415,715
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments, liabilities	14	210	6,378
Loans from the National Bank of the Republic of Belarus	20	1,978	13,363
Due to banks and other financial institutions	21, 28	2,287,826	1,142,818
Customer accounts	22, 28	3,842,908	2,312,252
Debt securities issued	23	277,041	499,146
Current income tax liabilities		4,815	20,513
Deferred income tax liabilities	11	31,940	11,295
Other liabilities	24	50,128	49,387
Subordinated debts	25, 28	375,750	31,305
Total liabilities		6,872,596	4,086,457
EQUITY:			
Share capital	26	1,135,595	1,135,595
Investments available for sale fair value revaluation reserve		(2,361)	-
(Accumulated loss)/retained earnings		(153,363)	193,663
Total equity		979,871	1,329,258
TOTAL LIABILITIES AND EQUITY		7,852,467	5,415,715

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
1 March 2012
Minsk

Chief accountant
T. Pivovar
1 March 2012
Minsk

The notes on pages 10-60 form an integral part of these financial statements.

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

	Notes	Share capital	Investments available for sale fair value revaluation reserve	Retained earnings/ (accumulated loss)	Total equity
31 December 2009		1,135,595	(172)	128,112	1,263,535
Total comprehensive income for the year		-	172	111,429	111,601
Dividends declared	26	-	-	(45,878)	(45,878)
31 December 2010		1,135,595	-	193,663	1,329,258
Total comprehensive loss for the year		-	(2,361)	(292,846)	(295,207)
Dividends declared	26	-	-	(54,180)	(54,180)
31 December 2011		1,135,595	(2,361)	(153,363)	979,871

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1 March 2012
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BELGAZPROMBANK

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
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax and loss on net monetary position		441,367	260,331
Adjustments for:			
Provision for impairment losses on interest bearing assets		113,814	52,651
Other provisions		18,849	8,350
Net change in fair value of derivative financial instruments		(1,469,671)	(51,249)
Net change in fair value of precious metals		(36,986)	-
Net change in fair value of securities		17,271	(2,064)
Depreciation and amortization		20,614	17,075
Loss on disposal of property, equipment, intangible and other assets		72	429
Accrual of compensation payable to employees		4,845	4,249
Net change in interest accruals		(90,131)	(27,244)
Net change in accruals of commission and penalties		(7,524)	(6,561)
Gain on sale of investments available for sale		(474)	(298)
Foreign exchange translation differences, net		1,455,547	(19,457)
Cash flows from operating activities before changes in operating assets and liabilities		467,593	236,212
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		(33,485)	25,786
Due from banks and other financial institutions		171,754	(135,561)
Derivative financial instruments		62,575	(5,320)
Precious metals		(35,641)	(1,338)
Securities at fair value through profit or loss		(49,239)	(263,639)
Loans to customers		(1,265,807)	(927,589)
Other assets		(26,151)	(42,066)
Increase/(decrease) in operating liabilities:			
Loans from the National Bank of the Republic of Belarus		(11,485)	(13,881)
Due to banks and other financial institutions		413,774	54,997
Customer accounts		1,567,325	211,617
Other liabilities		(13,632)	19,658
Cash inflow/(outflow) from operating activities before taxation		1,247,581	(841,124)
Income tax paid		(57,807)	(47,429)
Net cash inflow/(outflow) from operating activities		1,189,774	(888,553)

The notes on pages 10-60 form an integral part of these financial statements.

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

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(74,639)	(81,101)
Proceeds on sale of property, equipment and intangible assets		1,309	835
Proceeds on sale of non-current assets held for sale		21,450	39,196
Proceeds on disposal of investments available for sale, net		119,635	228,279
Net cash inflow from investing activities		67,755	187,209
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from subordinated debt		335,200	-
Raising finance by issuing debt securities, net		(433,982)	381,223
Repayment of loans received from international financial institutions		259,794	(57,510)
Proceeds from loans received from international financial institutions		(131,969)	212,530
Dividends paid		(54,180)	(45,878)
Net cash (outflow)/inflow from financing activities		(25,137)	490,365
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,232,392	(210,979)
Effect of changes in foreign exchange rates on cash and cash equivalents		477,420	1,624
Effect of changes from inflation on cash and cash equivalents		(655,447)	(132,816)
CASH AND CASH EQUIVALENTS, beginning of the year	12	602,128	944,299
CASH AND CASH EQUIVALENTS, end of the year	12	1,656,493	602,128

Interest paid and received by the Bank during the year ended 31 December 2011 amounted to BYR 457,033 million and 801,789 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2010 amounted to BYR 269,377 million and 568,225 million, respectively.

During the years ended 31 December 2011 and 2010 the Bank received property through repossession of collateral pledged under the default loans in the amount of BYR 1,804 million and BYR 24,678 million repsectively, which represents non-cash transactions.

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V. Babariko
1 March 2012
Minsk

Chief accountant
T. Pivovar
1 March 2012
Minsk

The notes on pages 10-60 form an integral part of these financial statements.

(in millions of Belarusian Rubles unless otherwise stated)

1. ORGANISATION

Belarusian-Russian Belgazprombank Joint Stock ("Belgazprombank" or the "Bank") initially named as "Bank Ekorazvitie" was established and registered with the National Bank of the Republic of Belarus (the "National Bank") as an open joint stock company in 1990. In March 1994 the Bank was renamed into "Bank Olimp". RAO "Gazprom" (the Russian Federation) and CJSC "Gazprombank" (the Russian Federation) acquired controlling interest of the Bank in 1996. The Bank was reorganized into an open joint stock company "Belgazprombank" in November, 1997.

The Bank conducts its business under the license for performing banking operations # 8 issued by the National Bank on 27 October 2006. The Bank accepts deposits from the public, grants loans, transfers payments in the Republic of Belarus and abroad, exchanges currencies, carries out operations with securities and provides other banking services to its corporate customers and individuals.

The Bank's registered office is 60/2 Pritytskogo Str., Minsk, Republic of Belarus, 220121.

As at 31 December 2011 and 2010 the Bank had 8 regional branches in the Republic of Belarus.

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

Shareholders	**%**
JSC "Gazprom" (the Russian Federation)	49.02
Gazprombank (Open Joint Stock Company) (the Russian Federation)	49.02
JSC "Beltransgaz" (the Republic of Belarus)	1.43
State Property Committee of the Republic of Belarus	0.53
Other	less than 0.01
Total	100.00

The ultimate controlling party of the Bank is JSC "Gazprom", whose controlling interest is held by the Government of the Russian Federation.

These financial statements were authorized for issue by the Chairman of the Management Board of the Bank on 1 March 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Other basis of presentation criteria

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

These financial statements are presented in millions of Belarusian rubles ("BYR million"), unless otherwise indicated.

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

The Bank presents its balance sheet accounts broadly in order of liquidity. The analysis regarding recovery of assets or repayment of liabilities within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 31.

Financial asset and financial liability are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or corresponding interpretation, and is specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

Hyperinflationary accounting

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

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

The restatement was made using the Consumer Price Index ("CPI"), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The change of rates of the Consumer Price Index for the five year period ended 31 December 2011 was as follows:

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

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

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

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

Recognition of 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 receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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 earned on assets measured at fair value is classified within interest income.

Recognition of income on repurchase and reverse repurchase agreements

Gain/loss on the sale of the above instruments is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest rate method and the sale price when such instruments are sold to third parties. When the repo/reverse repo is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest rate method.

Recognition of revenue – other

Recognition of fee and commission income

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

Financial instruments

The Bank recognizes financial assets and liabilities in its balance sheet when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss; held-to-maturity investments; available-for-sale financial assets; and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank with original maturity within 90 days, due from banks 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 determining cash flows, the minimum reserve deposit required by the National Bank is not included as a cash equivalent due to restrictions on its availability.

Financial assets at fair value through profit of loss

Financial assets are classified as at fair value through profit of loss when the financial asset is either held for trading or is designated as at fair value through profit of loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit of loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 29.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Unlisted shares and bonds classified as available-for-sale that are not traded in an active market are stated at fair value. Fair value is determined in the manner described in Note 29. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest rate method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gains or losses previously accumulated in the investments revaluation reserve are reclassified to profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Foreign exchange gains and losses are recognised in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Derivative financial instruments

The Bank uses the following derivative financial instruments: foreign currency forwards and exchange of deposits in different currencies with the National Bank (swap). These instruments are used by the Bank to manage its exposure to foreign exchange rate risk.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. As foreign currency forwards do not have an active market in the Republic of Belarus they are measured using interest rates parity model. The resulting gains or losses are recognised in profit or loss.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the interest income would be immaterial.

Repurchase and reverse repurchase agreements

In the normal course of business the Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements of financial assets (“reverse repos”). Repos and reverse repos are utilized by the Bank as an element of its liquidity management.

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

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified within balances due from banks and/or loans to customers.

The Bank enters into securities repurchase agreements and securities lending transactions under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Belarus and other CIS states, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only presented on the balance sheet if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments;
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original effective interest rate.

If an available-for-sale asset is impaired, than income and expenses recognized in other comprehensive income are transferred to the profit or loss.

If in a subsequent period the amount of the impairment loss for financial asset decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Write-off of loans

Loans are written off against allowance for impairment losses when deemed uncollectible, including through repossession of collateral. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank.

Derecognition of financial assets

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank 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 the transfer, the Bank reassesses the extent to which it has retained the risks and rewards of the ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all 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 Bank assesses whether or not it has retained control of the asset. If the Bank has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an shares.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities

Financial liabilities, including loans from the National Bank, due to banks and customer accounts, debt securities issued, other borrowed funds and other liabilities, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost. Interest expense is recognised on an effective interest rate basis.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets";
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor

Amounts due from lessees under finance leases are recognised as loans to customers in the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Bank as lessee

Assets held under finance leases are initially recognised at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Precious metals

Assets and liabilities, denominated in precious metals are recorded at the National Bank's bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in National Bank bid prices are recognized in net gain/(loss) on operations with precious metals.

Property and equipment

Property and equipment are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line basis. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. In these financial statements the depreciation is calculated on a straight-line basis at the following annual rates:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Buildings	1%	1%
Computer equipment, furniture and other equipment	10-20%	10-20%
Vehicles	14%	14%

Properties under construction for production or administrative purposes are carried at cost restated for inflation, less any recognised impairment loss. Cost of construction includes professional fees. Such properties are classified to the appropriate categories of property and equipment when completed or ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on sale or other disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost restated for inflation less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. It is calculated on a straight-line basis at the following annual rates:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Intangible assets	10-20%	10-20%

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible asset

At each reporting date the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the 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 tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Operating taxes

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

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingencies

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

Functional currency

The functional currency of these financial statements is the national currency of the Republic of Belarus – Belarusian Ruble.

Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The exchange rates at the year-end used by the Bank in the preparation of the 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

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's allowance on loans is established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses professional 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 data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behaviour, observable data 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. The Bank 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 Bank uses professional estimates to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank 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.

The management of the Bank believes that the allowance gives objective evidence of incurred losses from impairment of loans based on current economic position of borrowers.

Measurement of derivative financial instruments fair value

Derivative financial instruments represent foreign currency forwards and exchange of deposits in different currencies with the National Bank, do not have an active market and are measured using interest rates parity model. Interest rates applied are the risk free rates on sovereign debt instruments denominated in respective currency with respective maturity.

Useful lives of property and equipment

As described above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Application of new IFRS and IFRIC

The following new and revised standards and interpretations have been adopted in the current period:

- amendments to IFRS 7 "Financial Instruments: Disclosures", effective for annual periods beginning on or after 1 January 2009;
- amendments to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (as part of Improvements to IFRSs issued in 2009);
- amendments to International Accounting Standard ("IAS") 7 "Statement of Cash Flows" (as part of Improvements to IFRSs issued in 2009);
- amendments to IAS 17 "Leases", effective for annual periods beginning on or after 1 January 2010;
- amendments to IAS 1 "Presentation of Financial Statements" (as part of Improvements to IFRSs issued in 2009).

The adoption of the amendments listed above did not have significant impact on the financial statements but may affect accounting for future transactions.

New and revised IFRS in issue but not yet effective

The Bank did not apply the following new and revised IFRS in issue but not yet effective:

Standards and Interpretations	**Effective for annual period beginning on or after**
Amendment to IAS 32 "Financial Instruments: Presentation" – Classification of rights issues	1 February 2010
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited exemption for IFRS first-time adopters	1 July 2010
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	1 July 2010
Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2011
Amendments to IAS 24 "Related Party Disclosures"	1 January 2011
Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Replacement of "fixed dates" for certain exceptions with "the date of transition to IFRSs" and Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
Amendments to IFRS 7 "Financial instruments: Disclosures" – Transfers of financial assets	1 July 2011
Amendments to IAS 12 "Income Taxes" – Deferred taxes: recovery of underlying assets	1 January 2013
IAS 19 "Employee Benefits"	1 January 2013
IAS 27 "Separate Financial Statements" (revised 2011)	1 January 2013
IAS 28 "Investments in Associates" (revised 2011)	1 January 2013
IFRS 9 "Financial Instruments"	1 January 2013
IFRS 10 "Consolidated Financial Statements"	1 January 2013
IFRS 11 "Joint Arrangements"	1 January 2013
IFRS 12 "Disclosure of Interests in Other Entities"	1 January 2013
IFRS 13 "Fair Value Measurement"	1 January 2013

Bank's management does not expect the amendments to IAS 32, IFRS 1, IFRIC 19, IFRIC 14, IAS 28 and IFRS 11 listed above to have a significant impact on the financial statements of the Bank. For the remaining amendments the Bank's management is still evaluating the impact of their adoption on financial statements.

4. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income:		
Interest income on financial assets recorded at amortized cost:		
Interest income on financial assets that have been impaired	796,850	525,580
Interest income on financial assets that have not been impaired	82,325	36,399
Interest income on financial assets at fair value	40,942	35,554
Total interest income	920,117	597,533
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	796,850	525,580
Interest on balances due from banks and other financial institutions	77,187	33,549
Other interest income	5,138	2,850
Total interest income on financial assets recorded at amortized cost	879,175	561,979
Interest income on financial assets at fair value comprises:		
Interest on securities at fair value through profit or loss	27,137	3,851
Interest on investments available for sale	13,805	31,703
Total interest income on financial assets at fair value	40,942	35,554
Interest expense:		
Interest on financial liabilities recorded at amortized cost	485,230	271,441
Total interest expense	485,230	271,441
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest on customer accounts	289,110	176,699
Interest on deposits from banks and other financial institutions, on loans from the National Bank and subordinated debts	141,826	61,154
Interest on debt securities issued	54,234	33,588
Other interest expense	60	-
Total interest expense on financial liabilities recorded at amortized cost	485,230	271,441
Net interest income before provision for impairment losses on interest bearing assets	434,887	326,092

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Loans to customers
31 December 2009	102,735
Provision	52,651
Write-off of assets	(17,166)
Effect of inflation on the opening balance	(28,809)
31 December 2010	109,411
Provision	113,814
Write-off of assets	(11,169)
Effect of inflation on the opening balance	(77,226)
31 December 2011	134,830

The movements in allowances for impairment losses on other transactions were as follows:

	Other assets	**Guarantees and other contingent liabilities**	**Total**
31 December 2009	714	652	1,366
Provision	2,178	6,172	8,350
Utilization of provision for execution of obligations	-	(239)	(239)
Effect of inflation on the opening balances	(166)	(585)	(751)
31 December 2010	2,726	6,000	8,726
(Recovery of provision)/provision	(105)	18,954	18,849
Effect of inflation on the opening balances	(1,420)	(8,672)	(10,092)
31 December 2011	1,201	16,282	17,483

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

6. NET (LOSS)/GAIN ON FOREIGN EXCHANGE OPERATIONS

Net (loss)/gain on foreign exchange operations comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Dealing, net	182,508	28,957
Foreign exchange translation differences, net	(1,455,547)	19,457
Total net (loss)/gain on foreign exchange operations	(1,273,039)	48,414

7. NET GAIN ON OPERATIONS WITH FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial instruments at fair value through profit or loss comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Net gain on derivative financial instruments	1,531,520	51,834
Net (loss)/gain on securities at fair value through profit or loss	(24,639)	12,625
Total net gain on operations with financial instruments at fair value through profit or loss	1,506,881	64,459

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2011	Year ended 31 December 2010
Fee and commission income		
Settlement and cash operations with clients	80,653	75,240
Foreign exchange operations	55,065	16,655
Plastic cards operations	42,041	37,945
Documentary operations	7,906	7,391
Operations with securities	229	504
Settlements with banks	66	328
Other	239	468
Total fee and commission income	186,199	138,531
Fee and commission expense		
Foreign exchange operations	42,617	933
Plastic cards operations	16,841	14,942
Interbank accounts maintenance	3,488	3,496
Documentary operations	2,159	4,562
Operations with securities	2,058	1,062
Other	1,821	1,053
Total fee and commission expense	68,984	26,048

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2011	Year ended 31 December 2010
Fines and penalties	8,651	9,426
Net gain on operations with investments available for sale	474	298
Other	3,337	1,830
Total other income	12,462	11,554

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2011	Year ended 31 December 2010
Staff costs	120,020	116,364
Social security contributions	31,175	28,461
Depreciation and amortization	20,614	17,075
Stationery and office expenses	14,848	9,954
Expenses for services of automated interbank and international settlement system	14,648	11,762
Contributions to individuals' deposits protection fund	12,448	11,471
Rent and property and equipment maintenance	11,114	11,981
Insurance expenses	7,962	2,697
Expenses on maintenance of banking software	5,948	3,358
Remuneration to the members of the Board of Directors and Revision Committee	5,004	7,443
Advertising costs	4,355	6,563
Charity and sponsorship expenses	4,348	6,384
Taxes, other than income tax	3,736	3,043
Telecommunication expenses	3,716	3,715
Security expenses	3,376	3,100
Vehicles maintenance and fuel expenses	3,017	2,533
Information and consulting services	3,014	3,356
Other expense	10,824	11,322
Total operating expenses	280,167	260,582

11. INCOME TAX

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Belarus where the Bank operates. These regulations may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Major sources of non-deductible expenses include expenses on credit risk insurance, charity, incentive and social payments to employees made out of profit. Major amounts of non-taxable income relate to operations with securities issued by the Belarusian government, companies and banks.

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/timing of income and expense recognition as well as to temporary differences generated by tax book bases' differences for certain assets and liabilities.

The Bank provides for current income tax based on the statutory tax accounts maintained in accordance with the Belarusian statutory tax regulations. During the year ended 31 December 2010 tax rate for the Bank was 24% for the republican tax and 3% for the municipal tax. The rates were charged successively and the combined rate was 26.28%.

Starting from 1 January 2011 municipal tax of 3% is no longer withheld, and deferred taxes as at 31 December 2010 were calculated using 24% tax rate.

Starting from 1 January 2012 income tax rate was reduced to 18% and deferred tax was calculated using 18% tax rate as at 31 December 2011.

Tax effect of temporary differences as at 31 December 2011 and 2010 comprise:

	31 December 2011	31 December 2010
Other liabilities	2,120	4,266
Debt securities issued	1,084	938
Due to banks and other financial institutions	(433)	(1,215)
Investments available for sale	(650)	(86)
Derivative financial instruments	(653)	(8,897)
Due from banks and other financial institutions	(721)	(294)
Provision for guarantees and letters of credit	(1,173)	(1,150)
Other assets	(1,544)	1,978
Precious metals	(4,554)	-
Property, equipment and intangible assets	(5,548)	(1,407)
Loans to customers	(19,868)	(5,428)
Net deferred tax liabilities	(31,940)	(11,295)

The effective tax rate reconciliation is as follows for the years ended 31 December 2011 and 2010:

	Year ended 31 December 2011	Year ended 31 December 2010
(Loss)/profit before income tax	(226,692)	163,919
	24%	26.28%
Tax at the statutory tax rate	(54,406)	43,078
Tax effect of non-taxable expenses	9,211	13,693
Tax effect of non-taxable income and other deductions	(24,535)	(13,275)
Tax effect of change in tax base of property and equipment due to revaluation performed for tax purposes	(20,751)	(2,458)
Tax effect of change in income tax rate	(10,647)	(1,073)
Tax effect of the inflation of equity components on profit	160,896	13,031
Tax effect of other permanent differences	6,386	(506)
Income tax expense	66,154	52,490
Current income tax expense	45,509	66,200
Deferred tax expense/(benefit) recognized in income statement	20,645	(13,710)
Income tax expense	66,154	52,490

Deferred tax liabilities	Year ended 31 December 2011	Year ended 31 December 2010
As at 1 January – deferred tax (liabilities)/assets	(11,295)	2,415
Change in deferred income tax recognized in profit or loss	(20,645)	(13,710)
As at 31 December – deferred tax liabilities	(31,940)	(11,295)

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

	31 December 2011	31 December 2010
Correspondent accounts with the National Bank	341,086	278,126
Cash	290,635	157,704
Balance on reserve deposit account with the National Bank	30,990	16,302
Total cash and balances with the National Bank	662,711	452,132

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

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

	31 December 2011	31 December 2010
Cash and balances with the National Bank	662,711	452,132
Due from banks and other financial institutions with original maturity within 90 days	1,024,772	166,298
Less minimum reserve deposits with the National Bank	(30,990)	(16,302)
Total cash and cash equivalents	1,656,493	602,128

13. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities at fair value through profit or loss comprise the following trading securities:

	Interest to nominal	31 December 2011	31 December 2010
Bonds:			
German Federal Treasury Bonds	1.0%-1.5%	330,674	-
Eurobonds issued by the Ministry of Finance of the Republic of Belarus	8.75%-8.95%	179,274	66,569
Eurobonds issued by Belarusian banks	9.95%	73,141	57,324
US Treasury bonds	1.25%	-	150,616
Shares:			
Shares of Russian companies		2,567	4,648
Shares of Russian banks		1,364	2,406
Total securities at fair value through profit or loss		587,020	281,563

14. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2011 derivative financial instruments comprise:

	Nominal amount (in units of purchased currency)	Fair value	
		Asset	Liability
Foreign currency forward contracts:			
USD/BYR	USD 117,000,000	581,242	-
EUR/BYR	EUR 12,000,000	71,593	-
BYR/EUR	BYR 241,144,730,000	2,763	-
EUR/USD	EUR 12,000,000	449	(22)
USD/EUR	USD 43,333,370	195	(140)
RUB/USD	RUB 224,578,200	64	-
USD/RUB	USD 1,000,000	-	(48)
Total foreign currency forward contracts		656,306	(210)

	Nominal amount (in units of placed currency)	Fair value	
		Asset	Liability
Foreign currency swap contracts:			
EUR/BYR	EUR 45,965,183	264,086	-
USD/BYR	USD 40,356,069	194,465	-
Total foreign currency swap contracts		458,551	-

As at 31 December 2011 derivative financial instruments included foreign currency forward and swap contracts with the National Bank with the fair value of BYR 1,111,386 million (assets).

As at 31 December 2010 derivative financial instruments comprise:

	Nominal amount (in units of purchased currency)	Fair value	
		Asset	Liability
Foreign currency forward contracts:			
USD/BYR	USD 127,000,000	60,270	(6,265)
EUR/BYR	EUR 12,000,000	5,460	-
BYR/USD	BYR 5,463,271,000	169	-
EUR/USD	EUR 12,500,000	48	(65)
USD/EUR	USD 668,300	40	-
USD/GBP	USD 3,100,744	10	-
RUB/USD	RUB 213,521,000	-	(17)
GBP/USD	GBP 2,000,000	-	(31)
Total foreign currency forward contracts		65,997	(6,378)

	Nominal amount (in units of placed currency)	Fair value	
		Asset	Liability
Foreign currency swap contracts:			
USD/BYR	USD 15,255,785	20,559	-
EUR/BYR	EUR 40,356,069	6,000	-
Total foreign currency swap contracts		26,559	-

As at 31 December 2010 derivative financial instruments included foreign currency forward and swap contracts with the National Bank with the fair value of BYR 92,293 million (assets) and BYR 6,265 million (liabilities).

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	31 December 2011	31 December 2010
Correspondent and demand accounts	651,377	92,926
Loans under reverse repurchase agreements	301,503	-
Time deposits	85,252	170,499
Settlements with Belarusian Currency Stock Exchange	-	73,529
Total due from banks and other financial institutions	1,038,132	336,954

As at 31 December 2011 the Bank had balances due from four banks in the amount of BYR 732,992 million, each individually exceeding 10% of the Bank's equity.

As at 31 December 2011 government long-term bonds at fair value of BYR 300,000 million were pledged as collateral under repurchase agreements with a Belarusian bank with maturity up to 1 month from the reporting date.

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2011	31 December 2010
Originated loans	4,139,375	3,740,686
Net investments in finance lease	51,752	92,312
	4,191,127	3,832,998
Less allowance for impairment losses	(134,830)	(109,411)
Total loans to customers	4,056,297	3,723,587

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2011	31 December 2010
Loans collateralized by real estate and rights thereon	1,093,884	999,242
Loans collateralized by liens over receivables	813,079	590,606
Loans collateralized by inventories	486,171	549,294
Loans collateralized by equipment and rights thereon	481,980	602,979
Loans collateralized by guarantees of individuals	364,628	418,823
Loans collateralized by guarantees of legal entities	100,587	65,010
Loans collateralized by cash or guarantee deposits	12,573	5,612
Loans collateralized by securities	-	21,381
Loans collateralized by other or mixed types of collateral	838,225	580,051
	4,191,127	3,832,998
Less allowance for impairment losses	(134,830)	(109,411)
Total loans to customers	4,056,297	3,723,587

	31 December 2011	31 December 2010
Analysis by sector:		
Retail portfolio	806,893	1,002,977
Trade	725,050	753,003
Food industry	462,843	123,999
Machinery	410,393	258,024
Metallurgy	282,239	373,975
Transportation	233,801	84,958
Chemistry and petrochemistry	151,586	33,459
Energetics	133,235	286,649
Gas transportation	128,253	157,556
Construction	115,857	72,308
Investments in real estate	79,747	102,547
Oil industry	76,190	41,757
Financial and insurance services	60,495	56,768
Light industry	60,067	15,285
Other production	55,017	177,197
Timber industry	40,038	35,721
Media business	14,783	20,131
Agriculture	11,739	10,322
Other	342,901	226,362
	4,191,127	3,832,998
Less allowance for impairment losses	(134,830)	(109,411)
Total loans to customers	4,056,297	3,723,587

As at 31 December 2011 the Bank provided loans to eight customers totalling BYR 1,164,985 million before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

As at 31 December 2010 the Bank provided loans to three customers totalling BYR 719,353 million before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

The majority of loans were granted to companies operating in the Republic of Belarus, which represents significant geographical concentration in one region.

Loans to individuals comprise the following products:

	31 December 2011	31 December 2010
Consumer loans "Delay"	356,740	217,240
Loans to finance real estate	147,843	239,054
Plastic cards	140,557	227,740
Consumer loans	99,675	164,203
Car loans	60,266	153,338
Other	1,812	1,402
	806,893	1,002,977
Less allowance for impairment losses	(48,969)	(26,814)
Total loans to individuals	757,924	976,163

Consumer loans "Delay" represent a program according to which individuals pay by installments for the consumer goods purchased in the chain of stores participating in the program.

Analysis of loans and allowances for impairment losses by class of loans and impairment assessment method as at 31 December 2011 and 2010 is presented in the following table:

	31 December 2011		
	Loans before allowance for impairment losses	**Allowance for impairment losses**	**Loans less allowance for impairment losses**
Loans assessed for impairment individually	2,168,000	(72,697)	2,095,303
Loans assessed for impairment collectively	2,023,127	(62,133)	1,960,994
Total loans to customers	4,191,127	(134,830)	4,056,297

	31 December 2010		
	Loans before allowance for impairment losses	**Allowance for impairment losses**	**Loans less allowance for impairment losses**
Loans assessed for impairment individually	1,711,762	(65,553)	1,646,209
Loans assessed for impairment collectively	2,121,236	(43,858)	2,077,378
Total loans to customers	3,832,998	(109,411)	3,723,587

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

	31 December 2011	31 December 2010
Less than one year	49,695	55,502
From one year to five years	52,477	58,922
More than five years	15,171	-
Minimum payments on financial lease contracts	117,343	114,424
Less: unearned finance income	(65,591)	(22,112)
Net investment in finance lease	51,752	92,312
Current portion	25,015	42,817
Long-term portion	26,737	49,495
Net investment in finance lease	51,752	92,312

17. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Interest to nominal	31 December 2011	Interest to nominal	31 December 2010
Bonds issued by Belarusian banks in Belarusian Rubles	47%	18,293	11.5%-12%	159,570
Bonds issued by local authorities		-	12.5%	62,610
Other unquoted equity instruments		157		146
Total investments available for sale		18,450		222,326

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings	Computer equipment, furniture and other equipment	Vehicles	Construction in progress	Intangible assets	Total
At initial cost, restated for hyperinflation effect						
31 December 2009	86,702	61,587	10,092	23,693	22,136	204,210
Additions	-	-	-	46,954	8,339	55,293
Transfers among categories	34,092	20,004	2,234	(58,369)	2,039	-
Disposals	(581)	(1,970)	(926)	(137)	(1,416)	(5,030)
31 December 2010	120,213	79,621	11,400	12,141	31,098	254,473
Additions	-	-	-	61,256	10,332	71,588
Transfers among categories	28,586	25,255	902	(54,881)	138	-
Disposals	(872)	(2,729)	-	(253)	(9,016)	(12,870)
31 December 2011	147,927	102,147	12,302	18,263	32,552	313,191
Accumulated depreciation, restated for hyperinflation effect						
31 December 2009	9,429	26,197	4,424	-	5,773	45,823
Charge for the year	2,319	7,990	1,401	-	5,365	17,075
Eliminated on disposals	(89)	(1,723)	(820)	-	(1,414)	(4,046)
31 December 2010	11,659	32,464	5,005	-	9,724	58,852
Charge for the year	2,722	9,887	1,472	-	6,533	20,614
Eliminated on disposals	(47)	(2,401)	-	-	(9,002)	(11,450)
31 December 2011	14,334	39,950	6,477	-	7,255	68,016
Net book value						
31 December 2011	133,593	62,197	5,825	18,263	25,297	245,175
31 December 2010	108,554	47,157	6,395	12,141	21,374	195,621

19. OTHER ASSETS

Other assets comprise:

	31 December 2011	31 December 2010
Other financial assets:		
Commission income and fines accrued	8,488	6,845
Settlements on plastic cards	2,303	10,521
Receivables for sale of non-current assets held for sale	827	18,781
Other debtors	2,642	9,181
Less allowance for impairment losses	(1,201)	(2,726)
Total other financial assets	13,059	42,602
Other non-financial assets:		
Prepayments for property, equipment and other assets	48,865	40,079
Prepaid expenses and other non-financial assets	13,511	5,387
Materials in stock	1,641	1,277
Taxes recoverable and prepaid other than income tax	2	12,933
Total other assets	77,078	102,278

Movements in allowance for impairment losses on other assets for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

20. LOANS FROM THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

As at 31 December 2011 and 2010 the amounts due to the National Bank represent long-term loan with maturity period of each tranche up to 36 months granted by the National Bank in US dollars and financed by the European Bank for Reconstruction and Development ("EBRD") for further financing of small and medium size enterprises in the Republic of Belarus. Interest rate on the loan is floating and is linked to LIBOR.

21. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2011	31 December 2010
Loans from banks and non-banking financial institutions	1,096,881	613,296
Loans from European Bank for Reconstruction and Development ("EBRD")	385,676	272,983
Correspondent and demand accounts of other banks	338,896	131,185
Loans from European Fund for Southeast Europe ("EFSE")	282,732	123,248
Loans from Eurasian Development Bank ("EDB")	183,641	-
Loan from International Financial Corporation ("IFC")	-	2,106
Total due to banks and other financial institutions	2,287,826	1,142,818

As at 31 December 2011 due to banks and other financial institutions included loans from eight financial institutions totalling BYR 2,184,830 million, which represented significant concentration (95% of the total).

As at 31 December 2010 due to banks and other financial institutions included loans from four financial institutions totalling BYR 834,621 million, which represented significant concentration (73% of the total).

22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2011	31 December 2010
Time deposits	2,605,142	1,256,988
Current/settlement accounts and deposits repayable on demand	1,237,766	1,055,264
Total customer accounts	3,842,908	2,312,252

As at 31 December 2011 and 2010 customer accounts amounting to BYR 1,389,008 million (36% of the total) and BYR 542,785 million (23% of the total) were due to four and three customers, respectively, which represented significant concentration.

As at 31 December 2011 and 2010 customer accounts of BYR 390,926 million and BYR 33,421 million, respectively, were held as security against letters of credit, guarantees and loans issued by the Bank.

	31 December 2011	31 December 2010
Analysis by sector:		
Individuals	1,223,174	996,629
Gas transportation	747,805	309,595
Machinery	587,217	190,547
Trade	304,920	284,404
Oil industry	287,936	3,901
Construction	129,700	88,293
Investments in real estate	91,139	43,566
Financial and insurance services	62,892	100,600
Chemistry and petrochemistry	43,722	25,196
Transportation	41,717	30,852
Other production	26,599	35,978
Timber industry	22,345	12,395
Agriculture	21,528	5,439
Food industry	14,612	21,657
Light industry	12,956	17,036
Metallurgy	4,710	5,510
Media business	4,701	4,788
Energetics	3,132	1,905
Communication	1,127	2,991
Other	210,976	130,970
Total customer accounts	3,842,908	2,312,252

23. DEBT SECURITIES ISSUED

Debt securities issued are represented by bonds held by individuals and legal entities.

24. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2011	31 December 2010
Other financial liabilities:		
Provision for guarantees and other contingent liabilities	16,282	6,000
Compensation payable to employees	10,487	14,888
Settlements for property and equipment and other assets acquired	4,846	1,225
Settlements on other banking operations and accrued expenses	9,065	18,274
Total other financial liabilities	40,680	40,387
Other non-financial liabilities:		
Taxes payable, other than income tax	5,221	5,038
Contributions payable to deposits security fund	3,643	2,936
Prepayments received	-	321
Other non-financial liabilities	584	705
Total other liabilities	50,128	49,387

Movements in provision for guarantees and other commitments for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

25. SUBORDINATED DEBTS

	Maturity date	Interest rate	31 December 2011	31 December 2010
Subordinated debt from “Gazprombank” (Open Joint Stock Company)	27 December 2016	7.1%	334,000	-
Subordinated debt from “Gazprombank” (Open Joint Stock Company)	26 March 2012	LIBOR + 6%	41,750	31,305
Total subordinated debts			375,750	31,305

Repayment of this debt is subordinate to the repayment of the Bank’s liabilities to all other creditors.

26. SHARE CAPITAL

As at 31 December 2011 and 2010 authorized, issued and fully paid capital of the Bank consisted of 426,008,799,649 ordinary shares and 260,044,863 preference shares all with par value of BYR 1 each (at historical cost).

All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting. Preference shares are entitled to annual dividend, the amount of which is determinable by annual shareholders meetings, but which may not be less than 1% of par value.

During the years ended 31 December 2011 and 2010 the Bank declared and paid BYR 54,180 million and BYR 45,878 million dividends on ordinary and preference shares which comprised BYR 0.13 and BYR 0.11 per share for the years 2010 and 2009, respectively.

The Bank's retained earnings distributable to shareholders are limited to the amount of funds that are stated in the financial statements prepared according to the Belarusian accounting rules. As per these financial statements as at 31 December 2011 and 2010 the retained earnings comprised BYR 274,301 million and BYR 148,367 million, respectively (not audited). Non-distributable funds comprise property and equipment revaluation fund and reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities. In accordance with the legislation the reserve fund is created for the mentioned objectives in the amount of no less than 5% of the Bank's share capital stated in the financial statements under statutory accounting principles.

27. CONTINGENT LIABILITIES

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

The Bank's maximum exposure to credit loss under contingent liabilities and credit commitments 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.

As at 31 December 2011 and 2010 the nominal or contract amounts of contingent liabilities and credit commitments were:

	31 December 2011	31 December 2010
Contingent liabilities and credit commitments		
Guarantees issued and similar contingencies	499,372	78,442
Letters of credit, covered by cash	16,646	21,256
Letters of credit, not covered by cash	197,900	169,700
Commitments on loans and unused credit lines, cancellable	638,789	549,932
Total contingent liabilities and credit commitments	1,352,707	819,330

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

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2011 and 2010 the Bank had no material liabilities for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Capital commitments – As at 31 December 2011 and 2010 the Bank had contractual capital commitments in the amount of USD 29.2 million in accordance with agreement on joint investment project (construction of multistorey office building with underground car parking to be used subsequently as a head office of the Bank in Minsk). The expiration date of the agreement is determined by the date of putting the building into operation – December, 2013. As at 31 December 2011 and 2010 the Bank paid USD 2.7 million and USD 1.6 million, respectively, in accordance with the agreement, recorded as a prepayment for property and equipment (Note 19).

Operating lease commitments **–** As at 31 December 2011 and 2010 the Bank did not have any non-cancellable operating lease agreements.

Other contingent liabilities – As at 31 December 2011 and 2010 the Bank had contingent liabilities relating to guarantees issued as to settlements in MasterCard system in the amount of BYR 4,806 million and BYR 2,423 million, respectively.

Devaluation of national currency – in the year 2011 the National Bank performed phased devaluation of Belarusian ruble (in May and in October , 2011), which as of 31 December 2011 resulted in 172% decrease of exchange rates to the currency basket compared to the 31 December 2010.

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

According to statistical data, consumer price index for the year ended 31 December 2011 amounted to 109%. Starting from 1 January 2011 the economy of Republic of Belarus was recognized hyperinflationary for the purpose of IFRS reporting.

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

Laws and regulations affecting businesses in Belarus continue to change rapidly. Tax, currency and customs legislation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Belarus. The future economic direction of the country is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

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

28. TRANSACTIONS WITH RELATED PARTIES

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

	31 December 2011		31 December 2010	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Securities at fair value through profit or loss	**1,752**	**587,020**	**5,092**	**281,563**
- entities under common control	1,752		5,092	
Due from banks and other financial institutions	**145,432**	**1,038,132**	**124,293**	**336,954**
- shareholders	489		12,365	
- entities under common control	144,943		111,928	
Loans to customers before allowance for impairment losses	**130,058**	**4,191,127**	**169,293**	**3,832,998**
- entities under common control	126,391		159,382	
- key management personnel	3,667		9,911	
Allowance for impairment losses	**1,228**	**134,830**	**2,245**	**109,411**
- entities under common control	1,102		1,978	
- key management personnel	126		267	
Due to banks and other financial institutions	**386,066**	**2,287,826**	**371,742**	**1,142,818**
- shareholders	204,839		290,506	
- entities under common control	181,227		81,236	
Customer accounts	**1,288,279**	**3,842,908**	**582,526**	**2,312,252**
- shareholders	601		46	
- entities under common control	1,266,604		570,630	
- key management personnel	21,074		11,850	
Subordinated debts	**375,750**	**375,750**	**31,305**	**31,305**
- shareholders	375,750		31,305	
Commitments and contingencies	**5,349**	**1,352,707**	**1,701**	**819,330**
- entities under common control	3,776		167	
- key management personnel	1,573		1,534	

Included in the 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	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	**17,436**	**920,117**	**24,683**	**597,533**
- shareholders	33		543	
- entities under common control	16,165		23,225	
- key management personnel	1,238		915	
Fee and commission income	**30,115**	**186,199**	**3,812**	**138,531**
- shareholders	77		24	
- entities under common control	30,038		3,768	
- key management personnel	-		20	
Interest expenses	**(150,581)**	**(485,230)**	**(61,950)**	**(271,441)**
- shareholders	(44,865)		(15,806)	
- entities under common control	(104,143)		(44,876)	
- key management personnel	(1,573)		(1,268)	
Operating expenses	**(23,329)**	**(280,167)**	**(25,806)**	**(260,582)**
- key management personnel (remuneration)	(23,329)		(25,806)	
(Provision)/recovery of provision for impairment losses on interest bearing assets	**(198)**	**(113,814)**	**(2,086)**	**(52,651)**
- entities under common control	(201)		(2,075)	
- key management personnel	3		(11)	

During the years ended 31 December 2011 and 2010 remuneration of key management personnel consisted of short-term employee benefits.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

Financial instruments for which fair value approximates carrying value

For financial assets and liabilities that have a short-term maturity (less than 3 months), it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

Due from banks and other financial institutions

The management believes that the fair value of term deposits in banks does not differ materially from the carrying value due to fact that all the deposits are placed at floating interest rates.

Loans to customers

Loans to customers are granted at both variable and fixed rates. As there is no active secondary market in the Republic of Belarus for such loans and advances, there is no reliable market value available for this portfolio.

- The management believes that fair value of loans with floating interest rates does not materially differ from their carrying value.
- The management revises the rates for loans with fixed interest rates to correspond to the current market situation. As a result interest income on the most of balances is charged at rates which approximate market ones. Due to this fact the fair value of loans with fixed rates does not also materially differ from their carrying value.

Due to the National bank, other banks and financial institutions

Loans from the National bank, other banks and financial institutions are received both at variable and fixed rates.

- Floating rate – the management believes that the carrying value may be accepted as fair value.
- Fixed rate – certain loans are attracted at fixed rate. Most of the loans with fixed rates have maturities up to one year. Due to this fact the fair value of loans from banks with fixed rate does not also materially differ from the carrying value.

Customer accounts

Customer deposits have both variable and fixed rates.

- The management believes that fair value of deposits with floating interest rates does not materially differ from their carrying value.
- The management revises the rates for deposits with fixed interest rates to correspond to the current market situation. As a result interest expense on the most of balances is charged at rates which approximate market ones. Due to this fact the fair value of deposits with fixed rate does not also materially differ from their carrying value.

Debt securities issued

Debt securities are issued by the Bank at floating and fixed interest rates. In general rates on the debt financial instruments are in line with the market ones. The management believes that fair value of such instruments does not materially differ from their carrying value.

Subordinated debts

Subordinated debts are attracted both at fixed and floating interest rates. The management believes the rates under which these subordinated debts are attracted do approximately correspond to the current market level. That is why the fair value of such subordinated debts does not materially differ from their carrying value.

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

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations for which all significant inputs are observable, either directly or indirectly, and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

	31 December 2011		31 December 2010	
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Quoted prices in active market (Level 1)**	**Valuation techniques based on observable market data (Level 2)**
Securities at fair value through profit or loss	587,020	-	281,563	-
Derivative financial instruments (assets)	-	1,114,857	-	92,556
Investments available for sale, less equity investments	-	18,293	-	222,180
Derivative financial instruments (liabilities)	-	210	-	6,378

30. CAPITAL MANAGEMENT

The following table analyses the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee (Basel II):

	Year ended 31 December 2011	**Year ended 31 December 2010**
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	1,135,595	1,135,595
(Accumulated deficit)/retained earnings	(153,363)	193,663
Total qualifying tier 1 capital	982,232	1,329,258
Subordinated debts	335,211	7,739
Investments available for sale revaluation reserve	(2,361)	-
Total regulatory capital	1,315,082	1,336,997
Capital ratios:		
Tier 1 capital	13%	24%
Total capital	17%	24%

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

As at 31 December 2011 and 2010 the Bank included in the computation of total capital for capital adequacy purposes the subordinated debts received. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

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

The Bank's management reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The management estimates the amount of capital required to achieve strategic objectives and the planned increase of assets, as well as optimal balance between profitability and capital adequacy, considering requirements of the shareholders, partners of the Bank and regulatory institutions. The Bank performs analysis of risk factors, that influence the Bank's capital, and optimizes these risks by means of a balanced funding policy.

31. RISK MANAGEMENT POLICIES

Risk management plays essential role in the Bank's activities. The Bank manages risks in the course of the constant process of identification, evaluation and observation, by establishing risk limits and other internal control measures. The Bank is subject to credit risk, liquidity risk and market risk, which comprises risks associated with changes in interest rates, currency exchange rates, as well as stock prices. The Bank is also subject to operational risks.

Risk management structure

The Board of Directors carries general responsibility over risks identification and control. The Board of Directors is responsible for the general approach to risk management. The Board of Directors is responsible for the approval of the risk management policy. The Management Board is responsible for realization of the general risk management strategy and principles, approval of certain policies on risk management, as well as for the effectiveness and quality of the internal control procedures over risks. The Management Board also sets general limitations on risk acceptance. The Assets and Liabilities Management Committee, Credit Committees, Finance and Planning Committee and Technical Committee set limits and restrictions for certain types of banking operations, financial instruments or operators, exercise control over prescribed risk levels and carry out activities aimed at minimizing risks impact on the Bank's activities. Within authority delegated by the Management Board, Credit Committees and Assets and Liabilities Management Committee make decisions on operations subject to risks.

Department on risk management is responsible for the effective risk management system in the Bank, coordinates the process of risk management, develops methodology for assessment of current level of certain risks, performs independent review of transactions on loan issues within the delegated authority, regularly reviews and evaluates certain types of risk and cumulative Bank risk, carries out integrated testing of risk levels at extreme points and prepares risk reports for the management of the Bank, shareholders and stakeholders of the Bank. Department on risk management is independent from subordination to the risk-generating units (employees) of the Bank, which allows provision of complete and accurate information on risk profile of the Bank and to the management of the Bank.

Internal audit department assesses whether methodology and procedures on risk management are fully and effectively implemented.

Departments of the Bank (employees) are responsible for development and implementation of measures for minimization and control over risks related to their operation within the given authority.

As a part of risk management measures the Bank provides employees with warranties of authority which define authority levels that do not require approval of collective management bodies.

Systems of risk evaluation and communication

The Bank's risks are evaluated based on probabilistic quantitative methods establishing in monetary equivalent the maximum threshold of possible loss which will not be exceeded with a certain level of probability. The Bank also simulates the "stress scenarios" which will take place in case unlikely events occur.

Risk monitoring and control are mainly based on comparison of calculated indicators with the limits set by the Bank. The limits setting policy is based on the prudential ratios set by the National Bank. The main basis for limits setting is the maximum aggregate risk, which should not exceed the equity of the Bank.

The management bodies of the Bank make decisions aimed at optimization of risk levels and also set limits on maximum risk for particular activities. They also set maximum risk levels at which the activity bearing the risk is suspended and steps aimed at risk minimization and mitigation are taken. The Assets and Liabilities Management Committee sets limits for divisions of the Bank including its branches on certain active and passive operations, interest rate level associated with them, active operations with financial institutions, structural limits on operations with securities, industry limits of credit risk. Credit Committees approve maximum exposures for borrowers.

The Management Board distributes and approves maximum risk for various banking activities in accordance with strategic priorities and analysis of the existing trends and their possible future changes submitted by Department on risk management.

The relevant management body of the Bank distributes limits by branches for the most significant risks that are subject to centralized risk management to a smaller extent. The branches must adhere to the limits set and accepted principles of risk management. Operating control over compliance is performed by employees of operating departments on an on-going basis. The internal audit department controls compliance with the limits in the course of audits, the Department on prudential reporting and risk management performs control procedures during preparation of reports on prudential financial statements. External control is carried out by the Revision Commission of the Bank.

Information on all types of activities is examined and processed with the purpose of analysis, control and early risk identification. The information together with relevant commentary is submitted to the Board of Directors, Management Board, shareholders, committees of the Bank, and to the managers of departments. The report contains information on the levels of certain risk types, major factors influencing these levels, “value-at-risk” (VAR), liquidity indicators, and changes in risk level. The Management Board receives a detailed quarterly report on risks with the information necessary for risks evaluation and decision-making.

The system of risk reports implemented in the Bank enables access of all departments to adequate and accurate information which is required for the management decisions.

Excessive risk concentration

Risk concentration occurs in case a number of counterparties performs similar activities with similar risk characteristics or activities taken place in one geographical region, or parties have similar economic characteristics. As a result of changes in economic, political and other conditions risk concentration has similar impact on the ability of these parties to meet their contractual obligations. Risk concentration reflects relative sensitivity of the Bank’s performance to the changes in conditions which have impact on particular industry or geographical region.

In order to avoid excessive risk concentration the Bank’s policies and procedures comprise guidelines and limits aimed at maintenance of diversified portfolio.

Credit risk

Credit risk is the risk that the Bank will incur losses in case its clients or counterparties do not meet their contractual obligations. The Bank manages credit risk by setting maximum risk it is ready to accept for certain counterparties, geographical and industry risk concentration, as well as by monitoring compliance with the credit limits set.

Credit risk is managed in three directions: credit risk management over lending to corporate clients, credit risk management over retail operations, credit risk management over operations with financial institutions.

Levels of credit risk assumed are managed by the following procedures:

- segregation of duties between authorised management bodies in decision-making process;
- limits setting for operations with the purpose of credit risk minimization;
- regular analysis of debtors' financial position and their ability to meet credit obligations;
- requirement of collateral for credit operations in order to limit risk exposure;
- constant monitoring of the level and status of the risks taken and preparation of management reports the Board of directors, Management Board, shareholders of the Bank and other parties concerned;
- evaluating and ensuring capital adequacy necessary for coverage of risks taken by the Bank in the course of business;
- regular internal control carried out by the department of internal audit over adherence to the policies regulating lending operations, risks assessment and management.

Credit risk on financial instruments accounted for off-balance sheet is determined as a possibility of losses as a result of the client's inability to fulfil the terms of the agreement. In relation to credit risk associated with off-balance sheet financial instruments the Bank potentially carries loss which equals to total amount of unused credit lines. However the probable amount of loss is less than total amount of unused credit lines since in the majority of cases commitments on loans arise if the clients meet certain creditworthiness indicators. The Bank applies the same credit policy to contingent liabilities as it does to on-balance-sheet financial instruments, which is based on the procedures of approval of loans granted, setting of risk limits and constant monitoring.

During the year 2011 in the course of enhancement of the credit risk management following improvements to the risk management system have been introduced:

- changes were introduced to the Anticrisis program of the Bank relating to minimization of risks on loan portfolio in terms of more profound analysis of foreign currency risk at the stage of loan request placement, more strict conditions for loan issue, as well as more rigid approach to collateral valuation;
- independent reviews of transactions with loans by the Department on risk management (within delegated authority) were introduced to enhance the effectiveness of decisions made by the credit committees;
- representatives of the Department on risk management are included into credit committees;
- system of indicators of the quality of loan portfolio has been implemented and it is maintained on an on-going basis for the purpose of evaluation and monitoring of exposure on a portfolio basis;
- certain internal local acts relating to transactions with loans were updated.

The Bank carries out quarterly credit risk evaluation, which is based on the assessment of the probability of the events leading to risk and assessment of potential losses. Credit risk evaluation comprises quantitative and qualitative evaluation. The results of evaluation are submitted to the credit committees and are the basis for amendments of the credit policy.

Maximum credit risk exposure

For financial assets recognised on the balance sheet the maximum exposure to credit risk equals to a carrying value of those assets, net of allowance for impairment losses. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on, less provisions made for losses on these instruments.

The maximum amount of credit risk of the Bank may vary depending on individual risks of different assets and general market risks.

The following table presents the maximum exposure to credit risk on financial assets and contingent liabilities.

	31 December 2011	31 December 2010
	Maximum exposure to credit risk	**Maximum exposure to credit risk**
Due from the National Bank of the Republic of Belarus	372,076	294,428
Securities at fair value through profit or loss	583,089	274,509
Derivative financial instruments	1,114,857	92,556
Due from banks and other financial institutions	1,038,132	336,954
Loans to customers	4,056,297	3,723,587
Investments available for sale	18,293	222,180
Other financial assets	13,059	42,602
Guarantees issued and similar commitments	481,716	69,796
Letters of credit, not covered by cash	195,259	168,341

Financial assets are graded according to the current credit rating they have been given by internationally regarded agencies. The highest possible rating is AAA.

The sovereign credit rating in foreign currency of the Republic of Belarus according to the international rating agency Standard & Poor’s in 2011 and 2010 corresponded to level B- and B, respectively.

The following table presents Bank's financial assets by counterparties' credit rating (for government bodies – by country sovereign credit ratings):

	Higher than AA	AA	A	BBB	BB	Lower than BB-	Not rated	31 December 2011 Total
Due from the National Bank of the Republic of Belarus	-	-	-	-	-	372,076	-	372,076
Securities at fair value through profit or loss	330,674	-	1,364	2,567	-	252,415	-	587,020
Derivative financial instruments	-	-	-	-	5	1,114,433	419	1,114,857
Due from banks and other financial institutions	-	50,627	304,427	271	16,395	374,300	292,112	1,038,132
Loans to customers	-	-	-	-	-	-	4,056,297	4,056,297
Investments available for sale	-	-	-	-	-	18,293	157	18,450
Other financial assets	-	80	44	-	-	1,719	11,216	13,059

	Higher than AA	AA	A	BBB	BB	Lower than BB-	Not rated	31 December 2010 Total
Due from the National Bank of the Republic of Belarus	-	-	-	-	-	294,428	-	294,428
Securities at fair value through profit or loss	-	150,616	340	6,180	534	123,893	-	281,563
Derivative financial instruments	-	-	-	-	40	92,350	166	92,556
Due from banks and other financial institutions	-	15,680	15,006	432	12,393	111,686	181,757	336,954
Loans to customers	-	-	9,917	-	-	-	3,713,670	3,723,587
Investments available for sale	-	-	-	-	-	179,194	43,132	222,326
Other financial assets	-	219	-	-	-	728	41,655	42,602

The banking industry is generally exposed to credit risk through its financial instruments and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Belarus. The exposure to the credit risk is monitored on a regular basis to ensure the compliance of credit limits and credit worthiness according to the Bank's risk management policy.

The carrying value of impaired loans to customers is disclosed in Note 16. As at 31 December 2011 and 2010 other financial assets comprised impaired assets in the amount of BYR 2,661 million and BYR 3,598 million, respectively. As at 31 December 2011 and 2010 the Bank had no past due but not impaired financial assets.

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are presented in Note 16.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement.

Geographical concentration

The Bank regularly controls the risk associated with changes in legislation of countries, where the Bank's counterparties reside, and assesses its impact on the activities of the Bank. This approach is aimed at minimization of possible losses from investment climate changes in the respective countries. The Assets and Liabilities Management Committee sets country limits that are applied mainly to banks registered in Commonwealth of independent states and Baltic countries.

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

	Belarus	CIS countries	OECD countries	Non-OECD countries	31 December 2011 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	662,711	-	-	-	662,711
Securities at fair value through profit or loss	252,415	3,931	330,674	-	587,020
Derivative financial instruments	1,114,392	285	-	180	1,114,857
Due from banks and other financial institutions	389,967	24,353	621,863	1,949	1,038,132
Loans to customers	4,056,249	7	16	25	4,056,297
Investments available for sale	18,330	-	120	-	18,450
Other financial assets	12,935	-	124	-	13,059
TOTAL FINANCIAL ASSETS	6,506,999	28,576	952,797	2,154	7,490,526
FINANCIAL LIABILITIES:					
Derivative financial instruments	-	88	-	122	210
Loans from the National Bank of the Republic of Belarus	1,978	-	-	-	1,978
Due to banks and other financial institutions	3,376	959,019	926,538	398,893	2,287,826
Customer accounts	3,739,610	32,393	29,399	41,506	3,842,908
Debt securities issued	277,041	-	-	-	277,041
Other financial liabilities	36,482	4,013	185	-	40,680
Subordinated debts	-	375,750	-	-	375,750
TOTAL FINANCIAL LIABILITIES	4,058,487	1,371,263	956,122	440,521	6,826,393
NET POSITION	2,448,512	(1,342,687)	(3,325)	(438,367)	

	Belarus	CIS countries	OECD countries	Non-OECD countries	31 December 2010 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	452,132	-	-	-	452,132
Securities at fair value through profit or loss	123,893	7,054	150,616	-	281,563
Derivative financial instruments	92,293	40	-	223	92,556
Due from banks and other financial institutions	184,384	16,316	135,238	1,016	336,954
Loans to customers	3,713,670	-	9,917	-	3,723,587
Investments available for sale	222,224	-	102	-	222,326
Other financial assets	41,909	-	223	470	42,602
TOTAL FINANCIAL ASSETS	4,830,505	23,410	296,096	1,709	5,151,720
FINANCIAL LIABILITIES:					
Derivative financial instruments	6,265	31	-	82	6,378
Loans from the National Bank of the Republic of Belarus	13,363	-	-	-	13,363
Due to banks and other financial institutions	6,543	307,513	675,253	153,509	1,142,818
Customer accounts	2,277,737	26,029	7,695	791	2,312,252
Debt securities issued	499,146	-	-	-	499,146
Other financial liabilities	39,809	25	553	-	40,387
Subordinated debts	-	31,305	-	-	31,305
TOTAL FINANCIAL LIABILITIES	2,842,863	364,903	683,501	154,382	4,045,649
NET POSITION	1,987,642	(341,493)	(387,405)	(152,673)	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet the Bank's obligations when they fall due in the normal course of business or unforeseen events.

A system of managing liquidity risks arranged in the Bank helps evaluate probability, causes and effects of changes in time structure of assets and liabilities, as well as take measures aimed at loss minimization and liquidity maintenance in the circumstances indicated. The Bank has developed and approved the authorization process and appointed officers responsible for certain stages of risk management.

The management manages assets and liabilities by taking into account liquidity, risk of simultaneous withdrawal and daily monitoring of future cash flows. The process comprises evaluation of expected cash flows, availability of high-quality collateral which may be used for obtaining additional funds if required. Short-term liquidity is managed by the Treasury of the Bank which carries out operations on the money market for the purpose of current liquidity maintenance and future cash flows optimization.

The Bank handles a diversified assets portfolio that can be realized in case of unforeseen termination of cash inflow. The Bank also concluded credit lines agreements which may be used to meet requirements in funds. Besides, in accordance with the legislation, the Bank has an obligatory reserve deposit with the National Bank. The amount of the deposit depends on the level of deposits attracted from clients.

The following tables present the analysis of liquidity and interest rate risks which discloses term to maturity of non-derivative financial liabilities, calculated for non-discounted cash flows on financial liabilities (principal and interest) at the earliest date when the Bank will be liable to redeem the liability. The amounts disclosed in these tables do not reconcile to the amounts recorded in the balance sheet as the presentation below includes maturity analysis of financial liabilities, that comprise total remaining contractual payments (including interest payments), which are not recognized in the balance sheet under the effective interest rate method.

	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:						
Loans from the National Bank of the Republic of Belarus	-	-	2,026	-	-	2,026
Due to banks and other financial institutions	621,080	167,477	970,806	609,081	76,950	2,445,394
Customer accounts	1,099,756	506,203	971,732	1,367,679	574,040	4,519,410
Debt securities issued	1,893	25	106,397	231,851	-	340,166
Subordinated debts	-	42,419	24,122	430,288	-	496,829
Total interest bearing financial liabilities	1,722,729	716,124	2,075,083	2,638,899	650,990	7,803,825
Due to banks and other financial institutions	33,497	-	-	-	-	33,497
Customer accounts	443,170	-	-	-	-	443,170
Other financial liabilities	40,291	389	-	-	-	40,680
Guarantees issued and similar commitments	481,716	-	-	-	-	481,716
Letters of credit, not covered by cash	171,462	-	3,863	19,934	-	195,259
TOTAL FINANCIAL LIABILITIES	2,892,865	716,513	2,078,946	2,658,833	650,990	8,998,147

	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 Total
FINANCIAL LIABILITIES:						
Loans from the National Bank of the Republic of Belarus	-	-	12,520	1,114	-	13,634
Due to banks and other financial institutions	241,539	19,954	288,096	506,400	41,917	1,097,906
Customer accounts	794,717	176,698	485,649	388,685	319,643	2,165,392
Debt securities issued	29,077	241,251	239,195	-	-	509,523
Subordinated debts	-	-	2,210	31,835	-	34,045
Total interest bearing financial liabilities	1,065,333	437,903	1,027,670	928,034	361,560	3,820,500
Due to banks and other financial institutions	131,185	-	-	-	-	131,185
Customer accounts	378,025	-	-	720	-	378,745
Other financial liabilities	38,567	1,227	593	-	-	40,387
Guarantees issued and similar commitments	69,796	-	-	-	-	69,796
Letters of credit, not covered by cash	-	-	168,341	-	-	168,341
TOTAL FINANCIAL LIABILITIES	1,682,906	439,130	1,196,604	928,754	361,560	4,608,954

The following table presents an analysis of liquidity risk based on carrying values of financial assets and liabilities based on their expected maturity. Management estimates expected maturity of financial assets and liabilities based on historical data analysis, existence of active market and other factors affecting the period of assets and liabilities realization/settlement. Estimated maturity of the following categories of assets and liabilities differs from their contractual maturity.

Securities at fair value through profit or loss – the management estimates time of realization for assets carried at fair value in the balance sheet as at 31 December 2011 and 2010 as up to 1 month due to existence of an active market where securities can be sold in short terms.

Customer accounts – the Bank's liquidity risk management includes estimation of core deposits, i.e. funds associated with stable customer deposits relationship, this amount is estimated using statistical methods based on historical data of fluctuations on customer accounts balances during 90 days before the reporting date.

The following table presents the contractual periods of repayment of the mentioned financial statement lines as at 31 December 2011 and 2010:

	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 2011 Total**
Securities at fair value through profit or loss, interest bearing	9,490	-	165,212	315,577	92,810	-	-	583,089
Securities at fair value through profit or loss, non-interest bearing	-	-	-	-	-	-	3,931	3,931
Customer accounts, interest bearing	1,053,568	437,803	749,856	771,250	387,261	-	-	3,399,738
Customer accounts, non-interest bearing	443,170	-	-	-	-	-	-	443,170

	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 Total**
Securities at fair value through profit or loss, interest bearing	2,237	-	904	271,368	-	-	-	274,509
Securities at fair value through profit or loss, non-interest bearing	-	-	-	-	-	-	7,054	7,054
Customer accounts, interest bearing	785,340	163,721	443,888	270,260	270,298	-	-	1,933,507
Customer accounts, non-interest bearing	378,025	-	-	720	-	-	-	378,745

	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 2011 Total
FINANCIAL ASSETS:								
Securities at fair value through profit or loss	583,089	-	-	-	-	-	-	583,089
Due from banks and other financial institutions	754,615	-	-	-	-	-	13,360	767,975
Loans to customers	282,193	550,977	1,683,598	1,355,715	164,938	18,876	-	4,056,297
Investments available for sale	653	-	-	17,640	-	-	-	18,293
Total interest bearing financial assets	1,620,550	550,977	1,683,598	1,373,355	164,938	18,876	13,360	5,425,654
Cash and balances with the National Bank of the Republic of Belarus	631,721	-	-	-	-	-	30,990	662,711
Securities at fair value through profit or loss	3,931	-	-	-	-	-	-	3,931
Derivative financial instruments	3,472	-	56,509	1,054,876	-	-	-	1,114,857
Due from banks and other financial institutions	270,157	-	-	-	-	-	-	270,157
Investments available for sale	-	-	-	-	-	-	157	157
Other financial assets	4,036	340	367	7,089	-	-	1,227	13,059
TOTAL FINANCIAL ASSETS	2,533,867	551,317	1,740,474	2,435,320	164,938	18,876	45,734	7,490,526
FINANCIAL LIABILITIES:								
Loans from the National Bank of the Republic of Belarus	-	-	1,978	-	-	-	-	1,978
Due to banks and other financial institutions	583,932	162,626	921,642	528,514	57,615	-	-	2,254,329
Customer accounts	557,335	437,803	749,856	771,250	387,261	-	496,233	3,399,738
Debt securities issued	2,741	-	274,300	-	-	-	-	277,041
Subordinated debts	-	41,750	-	334,000	-	-	-	375,750
Total interest bearing financial liabilities	1,144,008	642,179	1,947,776	1,633,764	444,876	-	496,233	6,308,836
Due to banks and other financial institutions	33,497	-	-	-	-	-	-	33,497
Customer accounts	82,970	-	-	-	-	-	360,200	443,170
Derivative financial instruments	210	-	-	-	-	-	-	210
Other financial liabilities	40,291	389	-	-	-	-	-	40,680
TOTAL FINANCIAL LIABILITIES	1,300,976	642,568	1,947,776	1,633,764	444,876	-	856,433	6,826,393
Liquidity gap	1,232,891	(91,251)	(207,302)	801,556	(279,938)			
Interest sensitivity gap	476,542	(91,202)	(264,178)	(260,409)	(279,938)			
Cumulative interest sensitivity gap	476,542	385,340	121,162	(139,247)	(419,185)			
Cumulative interest sensitivity gap as a percentage of total financial assets	6.4%	5.1%	1.6%	(1.9%)	(5.6%)			

	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 Total
FINANCIAL ASSETS:								
Securities at fair value through profit or loss	274,509	-	-	-	-	-	-	274,509
Due from banks and other financial institutions	89,357	64,760	105,028	-	-	-	-	259,145
Loans to customers	127,096	374,961	1,452,421	1,506,998	217,136	44,975	-	3,723,587
Investments available for sale	1,924	23,032	106,915	90,309	-	-	-	222,180
Total interest bearing financial assets	492,886	462,753	1,664,364	1,597,307	217,136	44,975	-	4,479,421
Cash and balances with the National Bank of the Republic of Belarus	435,830	-	-	-	-	-	16,302	452,132
Securities at fair value through profit or loss	7,054	-	-	-	-	-	-	7,054
Derivative financial instruments	265	-	-	92,291	-	-	-	92,556
Due from banks and other financial institutions	77,809	-	-	-	-	-	-	77,809
Investments available for sale	-	-	-	-	-	-	146	146
Other financial assets	16,734	453	14,644	8,676	-	-	2,095	42,602
TOTAL FINANCIAL ASSETS	1,030,578	463,206	1,679,008	1,698,274	217,136	44,975	18,543	5,151,720
FINANCIAL LIABILITIES:								
Loans from the National Bank of the Republic of Belarus	-	-	12,286	1,077	-	-	-	13,363
Due to banks and other financial institutions	239,821	17,186	261,662	455,241	37,723	-	-	1,011,633
Customer accounts	315,300	163,721	443,888	270,260	270,298	-	470,040	1,933,507
Debt securities issued	26,862	238,287	233,997	-	-	-	-	499,146
Subordinated debts	-	-	-	31,305	-	-	-	31,305
Total interest bearing liabilities	581,983	419,194	951,833	757,883	308,021	-	470,040	3,488,954
Due to banks and other financial institutions	131,185	-	-	-	-	-	-	131,185
Customer accounts	104,002	-	-	720	-	-	274,023	378,745
Derivative financial instruments	113	-	3,867	2,398	-	-	-	6,378
Other financial liabilities	38,567	1,227	593	-	-	-	-	40,387
TOTAL FINANCIAL LIABILITIES	855,850	420,421	956,293	761,001	308,021	-	744,063	4,045,649
Liquidity gap	174,728	42,785	722,715	937,273	(90,885)			
Interest sensitivity gap	(89,097)	43,559	712,531	839,424	(90,885)			
Cumulative interest sensitivity gap	(89,097)	(45,538)	666,993	1,506,417	1,415,532			
Cumulative interest sensitivity gap as a percentage of total financial assets	(1.7%)	(0.9%)	12.9%	29.2%	27.5%			

Market Risk

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

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

Market risk includes interest rate risk, currency risk, price risk.

The Bank is exposed to interest rate risk as the Bank borrows funds at both fixed and floating rates. The risk is managed by the Bank maintaining an appropriate mix of fixed and floating rate borrowings.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This risk arises due to cumulative misbalance of terms and rate types of the interest sensitive assets and liabilities.

The interest rate risk management is performed by a collective body – Assets and Liabilities Management Committee. The Committee sets absolute limits for Bank’s operating departments, management can operate within, and ensures control over the risk of interest rate margin change by monitoring the gap between interest bearing assets and liabilities. The Bank monitors its current financial performance on continuing basis, estimates interest rate sensitivity and its effect on profit and equity.

The effect of interest rate changes on Bank’s comprehensive income is evaluated based on the amounts of financial assets and liabilities with variable interest rates, as well as on amounts of instruments carried at fair value with fixed interest rate as at reporting date. Additionally the calculation includes the effect of reinvestment of fixed-rate instruments at new market rates as they mature. The estimation follows from the assumption that the Bank’s portfolio structure does not change and is based on “the reasonably possible changes in risk variables”. The level of these changes is determined by the management and is reported to the key management personnel. The following table presents an interest rate sensitivity analysis on the Bank’s comprehensive income at the year horizon. The analysis was based on the parallel shift of the yield curve including all assets and liabilities, the shift was estimated to be equal to 3 percentage points for all financial instruments disregarding of their nominal currency. In addition it was assumed that the change of all types of the interest rates took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

	31 December 2011		31 December 2010	
	Interest rate 3%	**Interest rate -3%**	**Interest rate 3%**	**Interest rate -3%**
Impact on profit before taxation				
Assets				
Securities at fair value through profit or loss	(30,349)	30,349	(17,650)	17,650
Due from banks and other financial institutions	21,659	(21,659)	6,989	(6,989)
Loans to customers	87,114	(87,114)	52,085	(52,085)
Investments available for sale	507	(507)	5,506	(5,506)
Liabilities				
Loans from the National Bank of the Republic of Belarus	(37)	37	(250)	250
Due to banks and other financial institutions	(51,441)	51,441	(19,878)	19,878
Customer accounts	(56,079)	56,079	(33,223)	33,223
Debt securities issued	(2,031)	2,031	(4,268)	4,268
Subordinated debts	(1,201)	1,201	(901)	901
Net impact on profit before taxation	(31,858)	31,858	(11,590)	11,590
Impact on other comprehensive income				
Investments available for sale	-	-	(136)	136
Net impact on comprehensive income after taxation	(26,123)	26,123	(8,944)	8,944

Currency risk

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

The following instruments are implemented by the Bank to reduce currency risk: internal control procedures, limits on open currency position. Those limits match the minimum requirements of the National Bank.

The Bank's exposure to foreign currency exchange rate 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	469,671	101,653	70,733	20,065	589	662,711
Securities at fair value through profit or loss	-	252,415	330,674	3,931	-	587,020
Derivative financial instruments	1,114,857	-	-	-	-	1,114,857
Due from banks and other financial institutions	371,722	255,346	385,892	24,185	987	1,038,132
Loans to customers	1,684,884	1,681,190	493,435	196,788	-	4,056,297
Investments available for sale	18,450	-	-	-	-	18,450
Other financial assets	8,972	3,096	627	364	-	13,059
TOTAL FINANCIAL ASSETS	3,668,556	2,293,700	1,281,361	245,333	1,576	7,490,526
FINANCIAL LIABILITIES:						
Derivative financial instruments	210	-	-	-	-	210
Loans from the National Bank of the Republic of Belarus	-	1,978	-	-	-	1,978
Due to banks and other financial institutions	68,177	1,590,707	625,436	3,493	13	2,287,826
Customer accounts	1,349,214	1,439,288	778,658	275,637	111	3,842,908
Debt securities issued	304	275,402	1,335	-	-	277,041
Other financial liabilities	22,683	3,536	8,214	6,247	-	40,680
Subordinated debts	-	375,750	-	-	-	375,750
TOTAL FINANCIAL LIABILITIES	1,440,588	3,686,661	1,413,643	285,377	124	6,826,393
CURRENCY POSITION	2,227,968	(1,392,961)	(132,282)	(40,044)	1,452	

Derivative financial instruments with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the currency analysis presented above. The following table presents further analysis of currency risk on derivative financial instruments:

	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 derivative financial instruments	241,145	1,684,107	755,624	58,615	-	2,739,491
Obligations on derivative financial instruments	(752,900)	(188,027)	(599,400)	(8,412)	-	(1,548,739)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT TRANSACTIONS POSITION	(511,755)	1,496,080	156,224	50,203	-	
TOTAL CURRENCY POSITION	1,716,213	103,119	23,942	10,159	1,452	

	BYR	USD 1USD= BYR 3,000.00	EUR 1EUR= BYR 3,972.60	RUB 1RUB= BYR 98.44	Other currencies	31 December 2010 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	393,313	29,727	18,666	10,272	154	452,132
Securities at fair value through profit or loss	-	274,509	-	7,054	-	281,563
Derivative financial instruments	92,556	-	-	-	-	92,556
Due from banks and other financial institutions	74,364	192,204	54,120	15,978	288	336,954
Loans to customers	2,241,070	988,155	473,847	20,515	-	3,723,587
Investments available for sale	222,326	-	-	-	-	222,326
Other financial assets	35,381	4,262	2,926	33	-	42,602
TOTAL FINANCIAL ASSETS	3,059,010	1,488,857	549,559	53,852	442	5,151,720
FINANCIAL LIABILITIES:						
Derivative financial instruments	6,378	-	-	-	-	6,378
Loans from the National Bank of the Republic of Belarus	-	13,363	-	-	-	13,363
Due to banks and other financial institutions	121,161	864,986	156,625	46	-	1,142,818
Customer accounts	726,962	984,501	531,465	69,318	6	2,312,252
Debt securities issued	82,427	238,189	178,530	-	-	499,146
Other financial liabilities	29,527	4,155	2,125	4,545	35	40,387
Subordinated debts	-	31,305	-	-	-	31,305
TOTAL FINANCIAL LIABILITIES	966,455	2,136,499	868,745	73,909	41	4,045,649
CURRENCY POSITION	2,092,555	(647,642)	(319,186)	(20,057)	401	

Derivative financial instruments with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the currency analysis presented above. The following table presents further analysis of currency risk on derivative financial instruments:

	BYR	USD 1USD= BYR 3,000.00	EUR 1EUR= BYR 3,972.60	RUB 1RUB= BYR 98.44	Other currencies	31 December 2010 Total
Claims on derivative financial instruments	11,401	1,071,414	329,608	43,867	19,407	1,475,697
Obligations on derivative financial instruments	(1,347,766)	(178,130)	(4,145)	-	(19,407)	(1,549,448)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT TRANSACTIONS POSITION	(1,336,365)	893,284	325,463	43,867	-	
TOTAL CURRENCY POSITION	756,190	245,642	6,277	23,810	401	

Currency risk sensitivity

The following tables detail the Bank's sensitivity to an increase by 20% and decrease by 10% of USD, EUR and RUB against national currency as at 31 December 2011 and 2010. The mentioned currency exchange rates changes represent management's assessment of the possible change in foreign currency exchange rates, which is used when reporting foreign currency risk internally to key management personnel of the Bank. 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	
	BYR/USD +20%	**BYR/USD -10%**	**BYR/USD +20%**	**BYR/USD -10%**
Impact on profit before taxation	20,624	(10,312)	49,128	(24,564)
Impact on comprehensive income after taxation	16,912	(8,456)	37,338	(18,669)

	31 December 2011		31 December 2010	
	BYR/EUR +20%	**BYR/EUR -10%**	**BYR/EUR +20%**	**BYR/EUR -10%**
Impact on profit before taxation	4,788	(2,394)	1,255	(628)
Impact on comprehensive income after taxation	3,926	(1,963)	954	(477)

	31 December 2011		31 December 2010	
	BYR/RUB +20%	**BYR/RUB -10%**	**BYR/RUB +20%**	**BYR/RUB -10%**
Impact on profit before taxation	2,032	(1,016)	4,762	(2,381)
Impact on comprehensive income after taxation	1,666	(833)	3,619	(1,810)

Limitations of sensitivity analysis

The above interest rate risk and currency risk sensitivity analysis demonstrate the effect of a change in a key assumption mentioned above, 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 larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank'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.

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risk of financial instruments held at the Bank's portfolio which are subject to general and specific market fluctuations, as well as specific changes in financial position of certain issuers.

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

In the course of quantitative methods of risk assessment enhancement the Bank implemented the Value-at-Risk model for equity instruments. The assessment results are regularly reported to the management and are used for management decisions.

At the level of the case analysis (stress-testing) the Bank applies a dual approach to the risk assessment, which comprises a parallel use of simplified approaches, that allow to aggregate stress assessments of all types of risk , as well as advanced methods, which allow in detail assess the impact of market factors on Bank's activity.

The table below represents the results of the analysis of the sensitivity of the Bank's profit before taxation and equity for the year to changes in prices of securities on a simplified scenario of 3% symmetrical increase or decrease in all securities prices based on the amount of investments in securities at the reporting date:

	31 December 2011		**31 December 2010**	
	3% increase in securities price	**3% decrease in securities price**	**3% increase in securities price**	**3% decrease in securities price**
Impact on profit before taxation	17,611	(17,611)	8,447	(8,447)
Impact on comprehensive income after taxation	14,994	(14,994)	13,089	(13,089)

32. SUBSEQUENT EVENTS

According to official statistics published by Belarusian Statistic Committee inflation level in the Republic of Belarus was 3.5% for the first two months of 2012.

Starting from February 2012 the National Bank gradually decreased refinancing rate from 45% to 43% and to 38% from the 1 March 2012. Such decision is explained by the slowdown of inflationary processes in the country.

In February, 2012 the Board of Directors of the Bank approved the decision to increase share capital by USD 100 million in the form of additional cash contribution from the shareholders.