

**STATE UNITARY ENTERPRISE  
„BELARUSIAN NATIONAL  
REINSURANCE  
ORGANISATION”**

**Financial Statements  
for the year ended 31 December 2011**

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### ***Information about the Company***

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Name of company	STATE UNITARY ENTERPRISE “BELARUSIAN NATIONAL REINSURANCE ORGANISATION”
Legal status	State Unitary Enterprise
Insurance license	#02200/0060594 dated 30 November 2006 valid until 30 November 2011 and #02200/13-00048, valid until 30 November 2016
Address	14 Chkalov str., Minsk, Belarus
Reporting year	01/01/2011-31/12/2011
Information on shareholders	The Council of Ministers of the Republic of Belarus (100.00%)
Auditors	KPMG, Limited Liability Company 5 Dimitrova str., 220004 Minsk, Belarus

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

<b><i>Management of the Company</i></b>		<b>Date of appointment</b>
Mikchail Bulavkin	General Director	29.07.2009
Svetlana Kopytkova	Acting as Chief Accountant	14.11.2011
Andrey Unton	Deputy General Director	01.09.2009

As of the date of signing the financial statements the members of the Management of the Company were the same.

***Statement of management responsibility***

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Management is responsible for preparing the financial statements of State Unitary Enterprise “Belarusian National Reinsurance Organisation”. The financial statements on pages 6 to 50 present fairly the financial position of the Company as at 31 December 2011, the results of its operations and cash flows for 2011 in accordance with International Financial Reporting Standards (IFRS).

The Management confirms that appropriate accounting policies have been used and applied consistently. Reasonable and prudent judgment and estimates have been made in the preparation of the Company financial statements. The Management also confirms that the Company’s financial statements have been prepared on a going concern basis.

The Management of the Company is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. It is also responsible for operating the Company in compliance with the Law of the Republic of Belarus.

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Mikchail Bulavkin  
*General Director*

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Svetlana Kopytkova  
*Acting as Chief Accountant*

19 March 2012



**KPMG, Limited liability company**  
5 Dimitrova street  
220004 Minsk Belarus

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**To the shareholder of  
State Unitary Enterprise “Belarusian National Reinsurance Organisation”**

**Independent Auditors’ Report**

We have audited the accompanying financial statements of State Unitary Enterprise “Belarusian National Reinsurance Organisation” (“the Company”), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 6 to 50.

*Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatements, 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 about 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 our 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, we consider internal control relevant to the Company’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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects the financial position of State Unitary Enterprise “Belarusian National Reinsurance Organisation” as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of matter*

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

Irina Vereschagina  
Partner  
KPMG, Limited Liability Company  
19 March 2012

KPMG, Limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

Registered in Belarus No 191434140  
Registered office:  
5 Dimitrova street,  
220004 Minsk Belarus

***Statement of comprehensive income for the year ended 31 December 2011***

*All amounts are in millions of BYR*

	Notes	2011	2010 (restated)
<b>Earned premiums</b>			
<b>Written premiums</b>			
Gross written premiums	5	176 482	124 639
Reinsurers' share in written premiums	5	(78 615)	(55 365)
<b><i>Net written premiums</i></b>	5	<b><u>97 867</u></b>	<b><u>69 274</u></b>
<b>Change in unearned premium and unexpired risk technical reserves</b>			
Gross change	7	(49 503)	(16 566)
Reinsurers' share	7	6 417	(711)
<b><i>Change in net unearned premium and unexpired risk technical reserves</i></b>	7	<b><u>(43 086)</u></b>	<b><u>(17 277)</u></b>
<b>Net earned premiums</b>	6	<b><u>54 781</u></b>	<b><u>51 997</u></b>
<b>Incurred claims, net</b>			
<b>Paid claims, net</b>			
Gross claims paid	8	(14 448)	(15 598)
<i>Paid claims</i>		(21 099)	(15 835)
<i>Loss adjustment expenses</i>		(333)	(127)
<i>Recovered losses</i>		6 984	364
Reinsurers' share of claims	8	1 444	3 239
<i>Reinsurers' share in paid claims</i>		1 444	3 296
<i>Reinsurers' share in recovered losses</i>		-	(57)
<b><i>Net paid claims</i></b>	8	<b><u>(13 004)</u></b>	<b><u>(12 359)</u></b>
<b>Change in outstanding claim technical reserve</b>			
Gross change	9	(8 966)	(10 422)
Reinsurers' share	9	1 223	(395)
<b><i>Change in net outstanding claim technical reserve</i></b>	9	<b><u>(7 743)</u></b>	<b><u>(10 817)</u></b>
<b>Net incurred claims</b>	10	<b><u>(20 747)</u></b>	<b><u>(23 176)</u></b>
<b>Operating expenses/ income</b>			
Client acquisition costs	11	(8 560)	(7 612)
Change in deferred client acquisition costs	11	2 178	421
Reinsurance commission income		2 728	1 502
Administrative expenses	12	(8 041)	(7 854)
<b>Net operating expenses</b>		<b><u>(11 695)</u></b>	<b><u>(13 518)</u></b>
<b>Other technical (expense) / income, net</b>	13	<b>(159)</b>	<b>40</b>

(continued)

***Statement of comprehensive income for the year ended 31 December 2011***

(continued)

*All amounts are in millions of BYR*

	Notes	2011	2010 (restated)
Investments income, net	14	38 105	28 526
Other (expense) / income, net	15	(336 475)	1 104
<b>Profit before tax</b>		<b>(276 190)</b>	<b>44 947</b>
Income tax expense	16	(5 216)	(28 888)
<b>(Loss) / profit before loss on net monetary position</b>		<b>(281 406)</b>	<b>16 059</b>
Loss on net monetary position due to inflation effect	17	(240 929)	(26 961)
<b>Net loss for the year</b>		<b>(522 335)</b>	<b>(10 902)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(522 335)</b>	<b>(10 902)</b>

The accompanying notes on pages 12 to 50 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 19 March 2012, and the financial statements are signed on behalf of the Management of the Company by:

\_\_\_\_\_  
Mikchail Bulavkin  
*General Director*

\_\_\_\_\_  
Svetlana Kopytkova  
*Acting as Chief Accountant*

19 March 2012

***Statement of financial position as at 31 December 2011***

*All amounts are in millions of BYR*

	Notes	31 December 2011	31 December 2010 (restated)
<b>Assets</b>			
<b>Property and equipment</b>	19	<b>402</b>	<b>550</b>
<b>Intangible assets</b>		<b>1</b>	<b>-</b>
<b>Financial investments</b>			
Available-for-sale financial assets	20	540 973	1 002 405
Held-to-maturity financial assets	21	2 199	4 299
Deposits with banks	22	191 210	178 944
<b>Total financial investments</b>		<b>734 382</b>	<b>1 185 648</b>
<b>Receivables</b>			
Receivables from direct insurance activities	23	57 797	39 121
Receivables from reinsurance activities		985	632
Other receivables	24	6 247	819
<b>Total receivables</b>		<b>65 029</b>	<b>40 572</b>
<b>Accrued income and deferred expenses</b>			
Deferred client acquisition costs	11	5 307	3 129
Other accrued income and deferred expenses		179	39
<b>Total accrued income and deferred expenses</b>		<b>5 486</b>	<b>3 168</b>
<b>Reinsurance contract assets</b>			
Reinsurers' share in unearned premiums technical reserve	7	23 474	17 057
Reinsurers' share in outstanding claim technical reserve	9	6 989	5 766
<b>Total assets from reinsurance contracts</b>		<b>30 463</b>	<b>22 823</b>
<b>Cash and cash equivalents</b>	25	<b>24 314</b>	<b>20 162</b>
<b>Total assets</b>		<b>860 077</b>	<b>1 272 923</b>

The accompanying notes on pages 12 to 50 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 19 March 2012, and the financial statements are signed on behalf of the Management of the Company by:

\_\_\_\_\_  
Mikchail Bulavkin  
General Director

\_\_\_\_\_  
Svetlana Kopytkova  
Acting as Chief Accountant

19 March 2012

***Statement of financial position as at 31 December 2011***

*All amounts are in millions of BYR*

<b>Equity and liabilities</b>	<b>Notes</b>	<b>31 December 2011</b>	<b>31 December 2010 (restated)</b>
<b>Equity</b>			
Share capital	26	1 229 255	1 216 000
Accumulated losses		(578 206)	(88 775)
<b>Total equity</b>		<b>651 049</b>	<b>1 127 225</b>
<b>Liabilities</b>			
<b>Technical reserves</b>			
Technical reserves for unearned premiums and unexpired risks	7	108 624	59 121
Outstanding claim technical reserve	9	40 864	31 898
<b>Total technical reserves</b>		<b>149 488</b>	<b>91 019</b>
<b>Creditors</b>			
Direct insurance creditors		3 047	2 310
Reinsurance creditors		20 421	13 476
Current income taxes liabilities		2 088	528
Other creditors		328	242
<b>Total creditors</b>		<b>25 884</b>	<b>16 556</b>
<b>Provision for unused vacations</b>		<b>63</b>	<b>165</b>
<b>Deferred tax liability</b>	16	<b>33 593</b>	<b>37 958</b>
<b>Total liabilities</b>		<b>209 028</b>	<b>145 698</b>
<b>Total equity and liabilities</b>		<b>860 077</b>	<b>1 272 923</b>

The accompanying notes on pages 12 to 50 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 19 March 2012, and the financial statements are signed on behalf of the Management of the Company by:

\_\_\_\_\_  
Mikchail Bulavkin  
General Director

19 March 2012

\_\_\_\_\_  
Svetlana Kopytkova  
Acting as Chief Accountant

## ***Statement of cash flows for the year ended 31 December 2011***

*All amounts are in millions of BYR*

	Notes	2011	2010 (restated)
<b>Cash flow from insurance activities</b>			
<b>Net loss for the year</b>		<b>(522 335)</b>	<b>(10 901)</b>
Adjustments for:			
Loss on net monetary position due to inflation effect		240 929	26 960
Unrealized forex gain		(73 797)	(1 327)
Investment income	14	(38 105)	(28 526)
Decrease in impairment allowance for bad debtors	23	159	(40)
Reversal of the allowance for impairment of insurance debtors	23	(45)	-
Depreciation of property and equipment	19	155	148
Change in provision for unused vacations		(24)	94
Impairment of available for sale financial assets	15	461 433	-
Income tax expense		5 216	28 888
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>73 586</b>	<b>15 297</b>
<i>(Increase)/ decrease in operating assets:</i>			
Increase in receivables from direct insurance activities		(4 206)	(2 388)
(Increase) / decrease in receivables from reinsurance activities		(3)	132
(Increase) /decrease in other receivables		(8 880)	6 754
Increase in reinsurance contract assets		(7 640)	(437)
Increase in accrued income and deferred expenses		(2 318)	(563)
<i>Increase/ (decrease) in operating liabilities:</i>			
Increase in technical reserves		58 469	32 140
Increase/(decrease) in direct insurance creditors		(305)	444
Decrease in reinsurance creditors		(20 031)	(17 578)
Increase/(decrease) in other creditors		322	(237)
<b>Net cash inflow from insurance activities before income tax paid</b>		<b>88 993</b>	<b>33 564</b>
Income tax paid		(6 798)	(11 129)
<b>Total cash flow from insurance activities</b>		<b>82 195</b>	<b>22 435</b>
<b>Cash flow from investing activities</b>			
Investment income received		38 316	28 461
Net placements of deposits with banks		(109 719)	(56 066)
Purchase of property and equipment		(8)	(57)
<b>Total cash flow from investing activities</b>		<b>(71 411)</b>	<b>(27 662)</b>
<b>Cash flow from financing activities</b>			
Distribution of profit to the shareholder		(11 069)	(3 956)
<b>Total cash flow from financing activities</b>		<b>(11 069)</b>	<b>(3 956)</b>
<b>Cash and cash equivalent net decrease</b>		<b>(285)</b>	<b>(9 183)</b>
<b>Cash and cash equivalent at the beginning of the year</b>		<b>20 162</b>	<b>39 480</b>
Effect of inflation on cash and cash equivalents		(7 524)	(10 607)
Effect of exchange rate fluctuations on cash held		11 961	472
<b>Cash and cash equivalent at the end of the year</b>	25	<b>24 314</b>	<b>20 162</b>

The accompanying notes on pages 12 to 50 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 19 March 2012, and the financial statements are signed on behalf of the Management of the Company by:

\_\_\_\_\_  
Mikchail Bulavkin  
General Director  
19 March 2012

\_\_\_\_\_  
Svetlana Kopytkova  
Acting as Chief Accountant

## ***Statement of changes in equity for the year ended 31 December 2011***

*All amounts are in millions of BYR*

	Notes	Share capital	Accumulated loss	Total equity
<b>Balance at 31 December 2009</b>		<b>460 892</b>	<b>7 870</b>	<b>468 762</b>
Prior year restatements for hyperinflation		735 360	(66 020)	669 340
<b>Balance at 31 December 2009 (restated)</b>		<b>1 196 252</b>	<b>(58 150)</b>	<b>1 138 102</b>
Total comprehensive income for the year	26	-	(10 901)	(10 901)
<b>Transactions with owner, recorded directly in equity</b>				
Increase in share capital due to profit reallocation	26	8 847	(8 847)	-
Restatements for hyperinflation		10 901	(7 734)	3 167
Distribution of profit to the shareholder	26	-	(3 143)	(3 143)
<b>Balance at 31 December 2010 (restated)</b>		<b>1 216 000</b>	<b>(88 775)</b>	<b>1 127 225</b>
<b>Balance at 31 December 2010</b>		<b>469 739</b>	<b>9 950</b>	<b>479 689</b>
Prior year restatements for hyperinflation		746 261	(98 725)	647 536
<b>Balance at 31 December 2010 (restated)</b>		<b>1 216 000</b>	<b>(88 775)</b>	<b>1 127 225</b>
Total comprehensive income for the year	26	-	(522 335)	(522 335)
<b>Transactions with owner, recorded directly in equity</b>				
Increase in share capital due to profit reallocation	26	7 964	(7 964)	-
Restatements for hyperinflation		5 291	46 238	51 529
Distribution of profit to the shareholder	26	-	(5 370)	(5 370)
<b>Balance at 31 December 2011</b>		<b>1 229 255</b>	<b>(578 206)</b>	<b>651 049</b>

The accompanying notes on pages 12 to 50 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 19 March 2012, and the financial statements are signed on behalf of the Management of the Company by:

\_\_\_\_\_  
Mikhail Bulavkin  
General Director

\_\_\_\_\_  
Svetlana Kopytkova  
Acting as Chief Accountant

19 March 2012

## *Notes to the financial statements*

### **(1) General information**

#### **(a) Principal activities**

The Company was incorporated in 2006 as a State Unitary Enterprise and registered under the laws of the Republic of Belarus. The Company is the first specialized reinsurance organization in the Republic of Belarus and was established by the Regulation of the Council of Ministers of the Republic of Belarus dated 4th November, 2006 № 1463 “On Establishment of Belarusian National Reinsurance Organization” in compliance with the Order of the President of the Republic of Belarus dated 25th of August, 2006 № 530 “On Insurance Operations”. During the reporting year the Company operated under the reinsurance license (#02200/0060594 dated 30 November 2006 valid until 30 November 2011, replaced by #02200/13-00048, valid until 30 November 2016).

In accordance with the legislation of the Republic of Belarus State Unitary Enterprise “Belarusian National Reinsurance Organization” (“Belarus Re”) is the sole company which cooperates with foreign insurance and reinsurance organizations on reinsurance of risks, insured on the territory of the Republic of Belarus. The Company underwrites assumed reinsurance contracts exclusively and cannot conclude insurance contracts directly with insured. Consequently, all references to insurance contracts refer to reinsurance assumed. In accordance with the legislation of the Republic of Belarus all insurance companies operating on the territory of the Republic of Belarus are obliged to cede to State Unitary Enterprise “Belarusian National Reinsurance Organization” a portion of liabilities insured by them in excess of liability limits set by the legislation of the Republic of Belarus.

The main insurance lines of the Company are aviation insurance, liability insurance, motor insurance, property insurance, pecuniary insurance, transport insurance, marine insurance and accident insurance.

The head office is located in Minsk, Chkalova str., 14, Republic of Belarus.

#### **(b) Shareholder**

As of 31 December 2011 and 2010 the Company’s shareholder was:

	<b>31 December 2011</b>	<b>31 December 2010</b>
The Council of Ministers of the Republic of Belarus	100.00%	100.00%
	<b>100.00%</b>	<b>100.00%</b>

### **(2) Basis of preparation**

#### **(a) Statement of compliance**

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial statements for the year ended 31 December 2011 were authorized for issue on 19 March 2012 and signed on behalf of the management by the General Director and the Chief Accountant. The shareholder has the right to reject the financial statements and request them to be amended.

#### **(b) Hyperinflation**

In 2011 the economy of the Republic of Belarus was classified as a hyperinflationary economy under the criteria included in IAS 29, and IAS 29 has been applied retrospectively to the financial statements for the reporting period beginning on 1 January 2011.

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

The Company's opening statement of financial position as at 31 December 2009 in relation to non-monetary items (non-monetary assets and equity) measured at historical cost was restated to reflect the effect of

## *Notes to the financial statements*

inflation from the date the assets were acquired and the liabilities were incurred or assumed, as well as respective effect on deferred tax until the end of the reporting period.

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

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

<b>Year</b>	<b>%</b>
2006	6.6%
2007	12.1%
2008	13.3%
2009	10.1%
2010	9.9%
2011	108.7%

### **(c) Prior year restatements**

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

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

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

*In millions of BYR*

	<b>Amount as per previous report</b>	<b>Amount of restatements</b>	<b>Amount after restatement</b>
<b><i>As at 31 December 2010</i></b>			
Property and equipment	206	344	550
Available-for-sale financial assets	400 005	602 400	1 002 405
Accrued income and deferred expenses	1 447	1 721	3 168
Reinsurers' share in unearned premiums			
technical reserve	7 904	9 153	17 057
Deferred tax asset / (liability)	895	(38 853)	(37 958)
Share capital	(469 739)	(746 262)	(1 216 001)
Retained earnings / (accumulated loss)	9 950	(98 725)	(88 775)
Technical reserves for unearned premium			
and unexpired risks	(27 138)	(31 983)	(59 121)

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

## *Notes to the financial statements*

*In millions of BYR*

	<b>Amount as per previous report</b>	<b>Amount of restatements</b>	<b>Amount after restatement</b>
<b><i>For the year ended 31 December 2010</i></b>			
Gross written premiums	56 243	68 396	124 639
Reinsurers' share in written premiums	(24 868)	(30 497)	(55 365)
Gross change in unearned premium and unexpired risk technical reserves	(8 696)	(7 870)	(16 566)
Change in reinsurers' share in unearned premium technical reserve	119	(830)	(711)
Gross claims paid	(7 083)	(8 515)	(15 598)
Reinsurers' share of claims	1 452	1 787	3 239
Gross change in outstanding claim technical reserve	(5 931)	(4 491)	(10 422)
Change in reinsurers' share in outstanding claim technical reserve	80	(475)	(395)
Client acquisition costs	(3 311)	(4 301)	(7 612)
Change in deferred client acquisition costs	260	161	421
Reinsurance commission income	834	668	1 502
Administrative expenses	(3 549)	(4 305)	(7 829)
Investment income, net	12 936	15 589	28 526
Other income, net	503	601	1 104
Income tax expense	(4 937)	(23 951)	(28 888)

### **(d) Functional and Presentation Currency**

The amounts presented in these financial statements are in millions of Belarusian Rubles (BYR), unless otherwise stated, as this is the Company's functional currency.

### **(e) Reporting period**

Reporting period includes 12 months from 1 January 2011 to 31 December 2011.

### **(f) Basis of measurement**

The financial statements have been prepared on the historical cost basis, except for the following items which are carried at fair value: available-for-sale instruments except those whose fair value cannot be reliably estimated.

### **(g) Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the 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.

In particular, significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Insurance liabilities,
- Valuation of financial instruments,
- Impairment of financial instruments,
- Impairment of loans and receivables,
- Recognition of provisions,
- Deferred tax,
- Restatement for hyperinflation.

## *Notes to the financial statements*

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### *Insurance liabilities*

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The provision estimation difficulties also differ by class of business due to claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The most significant assumptions are related to the recognition of reported-but-not-settled reserves ("RBNS"), incurred but not reported claims reserve ("IBNR") and unexpired risks reserves ("URR"). The sufficiency of insurance technical reserves is monitored regularly through a liability adequacy test, performed on a line by line basis.

### *Valuation of financial instruments*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the note 3.4(d). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### *Impairment of financial instruments*

The determination of impairment indication is based on a comparison of the financial instrument's carrying value and the fair value.

For the purposes of impairment loss measurement, the Company's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on an analysis of the financial position of the issuer of the financial instrument.

### *Impairment of loans and receivables*

There are a number of significant risks and uncertainties inherent in the process of monitoring financial assets and determining if impairment exists. These risks and uncertainties include the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Company or changes in other facts and circumstances will lead the Company to change its investment decision. Any of these situations could result in a charge against the statement of comprehensive income in a future period to the extent of the impairment charge recorded.

### *Recognition of provisions*

Provisions are established when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

### *Deferred tax*

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### *Restatement for hyperinflation*

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

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

## ***Notes to the financial statements***

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

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

### **(3) Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements for the purposes of the transition to IFRSs, unless otherwise indicated.

The accounting policies have been applied consistently.

#### ***3.1 New standards, changes to standards and interpretations***

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2011 and have not been applied in preparing these financial statements.

*Amendments to IFRS 7 Disclosures - Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011) The Amendments require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

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

The Company does not expect the amendment to IFRS 7 to have material impact on the financial statements, because of the nature of the Company's operations and the types of financial assets that it holds.

*Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods) The Amendments contain new disclosure requirements for financial assets and liabilities that are:

- offset in the statement of financial position; or
- subject to master netting arrangements or similar agreements.

The Company does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

*IFRS 9 Financial Instruments (2009)* (effective for annual periods beginning on or after 1 January 2015)

This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

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

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

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

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on

## *Notes to the financial statements*

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initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Company's financial assets are expected to change. However, the Company is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application. The Company has not yet decided on the date that it will initially apply the new Standard.

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

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

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

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

The Company does not expect additions to IFRS 9 (2010) to have material impact on the financial statements. The classification and measurement of the Company's financial liabilities are not expected to change under IFRS 9 because of the nature of the Company's operations and the types of its financial liabilities.

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

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

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

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

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

It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Company's financial assets are expected to change and its effect will be required to be disclosed in the Company's financial statements.

IFRS 10 *Consolidated Financial Statements* and IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013) IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when (1) it is exposed or has rights to variable returns from its involvements with the investee, (2) has the ability to affect those returns through its power over that investee and (3) there is a link between power and returns.

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

## *Notes to the financial statements*

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The Company does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Company's control over its investees.

*IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013) IFRS 11, *Joint Arrangements*, supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

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

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

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

The Company does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

*IFRS 12 Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted. Providing some of the disclosures required by IFRS 12 before the effective date does not compel the entity to comply with all the requirements of IFRS 12 or to apply IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) early.)

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The entity does not expect IFRS 12 to have material impact on the financial statements.

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

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

The Company does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

*Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012) The amendments:

- require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections.
- change the title of the *Statement of Comprehensive Income* to *Statement of Profit or Loss and Other Comprehensive Income*, however, other titles are also allowed to be used.

## *Notes to the financial statements*

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The amendments are not relevant to the entity's financial statements, since the entity does not have other comprehensive income.

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

The amendments are not relevant to the Company's financial statements, since the Company does not have any investment properties measured using the fair value model in IAS 40.

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

The amendments are not relevant to the Company's financial statements, since the entity does not have any defined benefit plans.

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

The Company does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity's accounting policy.

*IAS 28 (2011) Investments in Associates and Joint Ventures* (Amendments effective for annual periods beginning on or after 1 January 2013) There are limited amendments made to IAS 28 (2008):

- *Associates and joint ventures held for sale.* IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The Company does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.

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

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and

## *Notes to the financial statements*

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- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The entity does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

*IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013) The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets.

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

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

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

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

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

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

The Company does not expect the Interpretation to have any impact on the financial statements since it does not have any stripping activities.

The following new and revised Standards and Interpretations are effective for the periods beginning 1 January 2011 and have been adopted by the Company in preparing these financial statements.

*Revised IFRS (IAS) 24 "Related Party Disclosure"* (effective for annual periods beginning on or after 1 January 2011). The amendment exempts government-related entities from the disclosure requirements in relation to related party transactions. The revised Standard also amends the definition of a related party and clarifies the definition of significant influence. The previous version of the standard required the companies controlled by, or under significant influence of the state, to disclose information on all transactions with other companies, also controlled by, or under significant influence of the state.

The revised standard was applied in the preparation of these financial statements and financial statements for the year ended 31 December 2010 before the official effective date.

*Amendments to IAS 32 "Financial Instruments: Disclosures and Presentation of Information"* – *Accounting of rights in foreign currency*.

In order to further improve IFRS (IAS) 32 was issued the amendment "Classification of issues relating to rights", which applies to reporting periods beginning on 1 February 2010 or after that date with the right to early adoption. The amendment describes the accounting of issues concerning rights denominated in foreign currencies other than the functional currency of the issuer. With the release of this amendment such rights regardless of the currency in which the purchase price is denominated, should be recorded in equity and meet certain criteria. Previously, these financial instruments should have been accounted for as financial liabilities. This amendment should be applied retrospectively in accordance with IFRS (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors", covering periods beginning on 1 January 2011.

These changes had no impact on the financial statements of the Company.

*Amendments to IAS 32 "Financial Instruments: Presentation"* – *"Classification of Rights Issues"*. In October 2009 the IASB issued amendments to IFRS (IAS) 32. These amendments are effective for annual periods beginning on or after 1 February 2010, early application is permitted. The amendment requires that

## ***Notes to the financial statements***

rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Amendment to IFRS (IAS) 32 is mandatory for application for annual periods beginning on 1 January 2011.

These changes had no impact on the financial statements of the Company.

Other standards that became effective for 2011 are not relevant to the Company.

### ***3.2 Foreign currency, foreign currency transactions***

Transactions in currencies other than the functional currency of the Company are initially recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities, including off-balance-sheet assets and liabilities denominated in foreign currencies are retranslated into functional currency in accordance with the exchange rate set by the National Bank of the Republic of Belarus on the last date of the reporting period. Non monetary assets and liabilities denominated in foreign currency that are measured at fair value or cost are translated at the exchange rate as at the date fair value or cost was determined.

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognised in the profit or loss account in the period in which the fluctuation occurs. Foreign exchange differences arising on translation on foreign operations are recognised in the statement of comprehensive income.

Foreign exchange rates for the key currencies at the end of the reporting period were the following:

	<b>31 December 2011</b>	<b>31 December 2010</b>	<b>1 January 2010</b>
BYR/USD	8 350.00	3 000.00	2 863.00
BYR/EUR	10 800.00	3 972.60	4 106.11
BYR/RUB	261.00	98.44	94.66

### ***3.3 Insurance and reinsurance contracts***

#### ***(a) Classification of insurance contracts***

An insurance contract signed by the insurer is classified as an insurance contract only if it transfers a significant insurance risk from the policy holder to the insurer. All the Company's insurance contracts are classified as insurance contracts. An assumed reinsurance contract is a type of insurance contract whereas the insurance risk is assumed from another insurer. The Company underwrites assumed reinsurance contracts exclusively and cannot conclude insurance contracts directly with insured. Consequently, all references to insurance contracts refer to reinsurance assumed.

When classifying insurance contracts for accounting purposes, the basis is the substance of transfer of insurance risk and common signs of possible risk. For example:

- Aviation insurance;
- Property insurance;
- Pecuniary insurance (including the risk of outstanding credit occurrence insurance);
- Motor insurance (third party liability of motor vehicles owners – green card);
- Transport insurance;
- Liability insurance;
- Marine insurance;
- Accident insurance.

Each of these lines of insurance the Company may be divided in more detail by taking into account the substance of the transferred insurance risk.

#### ***Ceded reinsurance***

During the course of its business, the Company enters into reinsurance contracts to restrict the potential net loss through diversification of risks. Reinsurance contracts do not relieve the Company from its liabilities to reinsured by the Company.

## ***Notes to the financial statements***

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### ***(b) Insurance premium and premium income***

Written premiums include the amounts, which are due for insurance contracts signed during the reporting year, that have come into force in the reporting year irrespective of whether these premiums have been received or not. Premiums written are decreased by premiums cancelled during the reporting period.

If insurance premiums are expected to be paid in several installments during the insurance year, written premiums include the premiums that related to the entire insurance year. If an insurance contract is signed for several insurance years, the premium of the respective year is reflected in each year.

The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. The unearned portion of premiums, relating to future periods, is recognised under technical reserves.

Reinsurers' share in written premiums is calculated in accordance with reinsurance contracts in force. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and the portion of reinsurance expenses attributable for future periods are recognised as assets under the reinsurance part of the unearned premium reserve.

### ***(c) Insurance and reinsurance receivables and payables***

Amounts due to and from reinsured, brokers and reinsurers are financial instruments and are included in insurance and reinsurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

Amounts that are overdue are reversed against premium income once the contract is cancelled. Allowances are recognised for overdue insurance receivables. Allowances are recognised for the outstanding amount depending on the number of days outstanding. Receivables are disclosed net of impairment allowance. The amount of allowance represents the difference between the gross and recoverable amount of receivables. Allowances for doubtful debts are recognised when the Company's management believes that the recoverability of these assets is uncertain. Receivables are written off when their recoverability is considered impossible.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as loans and receivables and are included within insurance and other receivables in the statement of financial position.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities.

### ***(d) Claims incurred***

Claims incurred from insurance activities are claims attributable to the reporting period and consist of claims paid in the financial year, the corresponding claim handling expenses (loss adjustment expenses) and changes in the claim reserves. Claims paid are decreased by the amount of losses recoverable through cession or subrogation.

The claims amounts recoverable under ceded reinsurance contracts are assessed on each reporting date. The value of those assets decrease if due to an event subsequent to initial recognition there is objective evidence that the Company will not be able to recover all amounts, and this event has a reasonable measurable impact on the amounts receivable by the Company from the reinsurer.

### ***(e) Technical reserves***

The Company establishes technical reserves to reflect the estimate of liabilities arising from insurance contracts: unearned premium and unexpired risk reserve, outstanding claim technical reserve.

The reinsurer's share in the technical reserves is disclosed under assets in the statement of financial position.

## ***Notes to the financial statements***

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### ***Unearned premium and unexpired risk reserves***

#### ***Unearned premium reserves (UPR)***

Unearned premium reserves represent the proportion of premiums written which relate to the period of risk subsequent to the accounting year. Reserves are calculated for each insurance policy under the 365- day Pro Rata Temporis method based on the period in force for a particular insurance contract.

#### ***Unexpired risk reserve (URR)***

A provision is made for unexpired risks arising from the general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums reserve in relation to such contracts after the deduction of any deferred acquisition costs.

URR is provided when it is expected that the unearned premium reserve will not be sufficient to cover the claims and expenses arising on the insurance contracts in force (note 3.3(g)). URR is established in order to reduce the risk of possible fluctuations in the operating result of the Company and guarantees the protection from possible future risks resulting from claims and expenses arising from the insurance contracts being in force as at the reporting date.

### ***Outstanding claims technical reserves***

An outstanding claims technical reserve comprises a reserve for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and the related internal and external claim handling expenses. Provisions for non-life claims outstanding are not discounted.

#### ***Reported but not settled claims reserve (RBNS)***

The RBNS claims reserve includes case reserves. Case reserves are set on a case-by-case basis by the Company's loss adjusters for claims reported and not yet settled as at the reporting date. The sensitivity analysis for insurance liabilities is disclosed in note 4.3(e) and claim development analysis is disclosed in note 4.3(f).

#### ***Incurred but not reported claims reserve (IBNR)***

IBNR is calculated in respect of claims incurred but not reported prior to the end of the reporting period. For the purposes of IBNR determination as at the reporting date, the management uses data on historical accidents in the reporting and previous periods using claim development triangle methods. The claim development analysis is disclosed in note 4.3(f).

### ***(f) Client acquisition costs***

Client acquisition costs represent commissions paid to intermediaries related to the acquisition of insurance contracts.

Deferred client acquisition costs represent the portion of client acquisition costs that are attributable to future reporting periods in accordance with the proportion of unearned premium technical reserves versus gross written premiums for each insurance contract.

### ***(g) Liability adequacy test***

Management assesses at each reporting date the adequacy of its recognised insurance liabilities using current estimates of future cash flows arising from its insurance contracts, and comparing those estimated future cash flows against the carrying amount of liabilities after the deduction of the deferred acquisition costs. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and the investment income from assets backing the insurance contract provisions are used in performing these tests.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting aside additional unexpired risk reserves.

The liability adequacy test is applied to the gross amounts of reserves, i.e. the effect of reinsurance is not taken into account.

## ***3.4 Financial instruments***

### ***(a) Classification***

At inception, all financial instruments are classified into one of the following categories:

## ***Notes to the financial statements***

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***Financial instruments at fair value through profit or loss*** are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, are designated by the entity as at fair value through the profit or loss. The Company did not classify any financial instruments to this category in 2011 (2010: nil).

***Available-for-sale assets*** are financial assets classified at inception as available for sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available for sale instruments include certain equity securities. Generally, this category is assigned by the Company to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

***Held-to-maturity financial instruments*** are non-derivative financial assets with fixed or determinable payments and a fixed maturity with respect to which the Company has a positive intent and ability to hold to maturity.

***Loans and receivables*** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include loans, term deposits with banks and debtors in the statement of financial position. Insurance receivables are classified in this category.

***Financial liabilities carried at amortised cost*** represent financial liabilities of the Company other than financial instruments designated at fair value through profit or loss. This category includes due to creditors.

### ***(b) Recognition and derecognition***

Financial instruments are recognised when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognised in the statement of financial position on the transaction date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Company accounts for the changes in the fair value of the received or transferred asset based on the same principles used for any other acquired asset of the respective category.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or where the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

### ***(c) Initial and subsequent measurement***

Financial instruments are initially measured at fair value and except for financial instruments at fair value through profit or loss include directly attributable transaction costs.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments for which no reliable fair value measurement is possible. In this case, such instruments are carried at cost less transaction expenses and impairment.

All financial liabilities and other financial assets including loans and receivables, deposits with banks and held to maturity assets are measured at amortised cost using the effective interest rate method. All instruments are subject to revaluation when impaired. Short term receivables and payables are not discounted.

Profit or loss arising from changes to the fair value of financial instruments designated through profit or loss is recognised in the statement of comprehensive income. Differences arising from changes to the fair value of available for sale financial instruments are recognised through other comprehensive income in equity.

### ***(d) Fair value measurement***

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

The fair value of financial instruments that have a quoted market price in an active market is determined based on the quoted price on the reporting date or the last working date of the respective market. Where

## ***Notes to the financial statements***

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reference to an active market for a financial instrument is not possible, discounted cash flows techniques are used or other measurement models available in the respective market provided if the use of such models may ensure a reliable estimate of the fair value.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate related to the reporting date for a financial instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the reporting date.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Company would receive or pay to terminate the contract at the reporting date taking into account the current market conditions and the current creditworthiness of the counterparties.

### ***(e) Offsetting***

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

## ***3.5 Impairment***

### ***(a) Financial assets***

At each reporting date the Company assesses whether there is objective evidence that the financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Company considers evidence of impairment at both a specific asset level and a collective level. All individually significant financial assets are individually assessed for impairment. All individually significant assets which are not assessed as impaired are then collectively assessed for any impairment that has been incurred but not yet identified at the reporting date.

Insurance receivables that are overdue are reversed against premium income once the policy is cancelled. No impairment allowances are recognised in respect of amounts that have not yet become due if no portion of the premium is taken to income.

Other debtors are stated at recoverable amount.

### ***(b) Non financial assets***

Non financial assets, other than deferred taxes and deferred acquisition costs, are assessed at each reporting date for any indications of impairment. In the presence of such evidence, the Company estimates the recoverable amount of the related asset. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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### **3.6 Property and equipment**

#### *Property*

During 2011 and 2010 the Company did not have property.

#### *Equipment*

Equipment is recorded at historical cost less accumulated depreciation and impairment loss (if any). Depreciation is calculated using a linear method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:

Office equipment and furniture	10-20% per year
Machinery and equipment	2-20% per year
Vehicles	12,5% per year

Maintenance costs of equipment are recognised in the profit or loss statement as incurred. Costs of capital repairs of equipment (leasehold improvements) are added to the value of the respective asset and are written off on a straight line basis during the shorter of the useful lifetime of the capital repairs and the period of lease.

Profit or loss from disposal of equipment is calculated as the difference between the book value of the asset and income generated from sale, and reflected in the profit or loss statement when disposed.

Depreciation methods, useful lives and residual values are reviewed annually.

### **3.7 Leases**

#### *The Company as lessee*

Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term. Discounts received are recognised in the statement of comprehensive income as a significant part of the total lease expenses.

### **3.8 Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established.

Finance expenses comprise changes in the fair value of financial assets at fair value through profit or loss.

### **3.9 Corporate income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in other comprehensive income or in equity, in which case it is recognised in other comprehensive income or equity.

*Current tax* is the expected tax payable on the taxable income for the year and is calculated in accordance with the legislation of the Republic of Belarus, using tax rates enacted or substantively enacted at the reporting date (24 per cent in 2011 and 26.28 per cent in 2010), and any adjustment to tax payable in respect of previous years.

*Deferred tax* is recognised for temporary differences arising between the carrying value of assets and liabilities in the financial statements (financial reporting purposes) and the amounts used for local reporting purposes. Deferred tax asset (liability) is recognised by applying the statutory tax rate 18 per cent as at 31 December 2011 and 24 per cent as at 31 December 2010.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

### **3.10 Cash and cash equivalents**

In the cash flow statement cash and cash equivalents comprise demand deposits, overnight deposits and term deposits with banks with the initial maturity term less than three months. In the cash flow statement, cash flows are presented using the direct method.

## ***Notes to the financial statements***

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### ***3.11 Profit distribution to the shareholder***

In accordance with the legislation of the Republic of Belarus the Company is obliged to make certain payment to the government of the Republic of Belarus. In 2011 profit distribution to the shareholder comprised payments to budget of a certain percentage of the profit for the year received by the Company in accordance with belorussian accounting principles. The percentage depends on the profitability of the Company and is stated in the Order of the President of the Republic of Belarus #637 dated 28 December 2005 (with the editions followed). The maximum level of the payment is limited by 25 per cents of the profit for the companies with 30 per cent profitability ratio and above.

### ***3.12 Related parties***

Related parties are defined as the shareholder of the Company, members of the Management of the Company and companies in which the Management of the Company have a significant influence or control.

### ***3.13 Employee benefits***

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis as the related service is provided. The Company pays fixed social security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect of retired employees.

### ***3.14 Provisions***

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

## **(4) Risk and risk management**

### ***4.1 Risk and risk management***

The objective of risk management performed by the Company is to protect the interests of stakeholders, i.e. reinsured and shareholders of the Company, and the management of risks. Risk management includes a set of measures the performance of which requires involvement of each staff member within the scope of his or her competency.

The Company's risk management includes:

- Capital sufficiency requirements and capital management;
- Insurance risk identification and risk management;
- Financial risk identification and management;
- Operational risks identification and management.

### ***4.2 Solvency requirements and Capital management***

The Company's objectives when managing capital are to comply with minimum capital requirements stipulated by the Instruction on the criteria and evaluation of insurance organizations' solvency, approved by the Decree of Ministry of finance of the Republic of Belarus on 10 March 2007 №73. The Company is obliged to hold the minimum amount of capital required to write a particular business. The minimum required capital is calculated based on the statutory accounting records and must be maintained at all times throughout the year and to safeguard the Company's ability to continue as a going concern.

In order to ensure the stability of the insurer's financial activities, the insurance company should constantly have at its disposal own funds, which should be equal to or larger than a determined solvency margin.

## *Notes to the financial statements*

<i>In millions of BYR</i>	<b>2011</b>	<b>2010</b>
Solvency margin based on premiums received	19 877	9 971
Solvency margin based on claims paid	5 074	2 651
<b>Solvency margin (the largest amount)</b>	<b>19 877</b>	<b>9 971</b>
Reinsurance ratio	0,7022	0,8777
<b>Solvency margin adjusted by reinsurance ratio</b>	<b>13 958</b>	<b>8 752</b>
<b>Total capital for capital adequacy (own funds)</b>	<b>497 797</b>	<b>472 068</b>
<b>Capital adequacy surplus</b>	<b>483 839</b>	<b>466 100</b>

### **4.3 Insurance risk identification and risk management**

The business of assumed reinsurance represents the transfer of risk from the reinsured to the reinsure and management of this risk. The largest insurance risks result from assuming risks in reinsurance, assessing them, choosing the reinsurance cover and fulfilling obligations with respect to the signed contracts. Insurance risk is the possibility that the reinsured by the Company event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. Insurance risk is the most significant risk faced by the Company in day-to-day activities.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its assumed reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur if the frequency and severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The calculation of the tariffs and prices on insurance products reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Management of Company's and Insurance Committee in particular.

#### **(a) Basic product features**

The terms and conditions of assumed reinsurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from assumed reinsurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

The main objective of reinsurance is the provision of reinsurance protection to the insurance/reinsurance companies.

There are the following main insurance products of the Company:

- Aviation insurance;
- Property insurance;
- Pecuniary insurance (including the risk of outstanding credit occurrence insurance);
- Motor insurance (third party liability of motor vehicles owners – green card);
- Transport insurance;
- Liability insurance;
- Marine insurance;
- Accident insurance.

The evaluation of the Company's main insurance products and means by which the risks connected with them are managed are given below.

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### *Aviation insurance*

Aviation insurance is a common name for the complex of property, personal and liability insurance, which results from the usage of aviation transport and protects the valuable interest of individuals and legal entities in case of the occurrence of events, set by the insurance contract or legislation.

Order and conditions of aviation insurance are specific and require the detailed description. This is stipulated by the following factors:

- Aviation insurance deals with unique, differing from other types of property, risks;
- Significant part of the insured amount provides for the coordination of activities between insurer and reinsurer;
- Aviation risks may lead to enormous and cumulative losses;
- Aviation insurance is strongly connected with a global insurance market;
- Aviation insurance is regulated both by national and international law;
- For conduction of aviation insurance operations the special developed infrastructure is required;
- Aviation risks require a high demand for the professional training of specialists in charge of the insurance process.

The goal of civil aviation insurance is the protection of interests of aircraft operators, passengers and third parties. It includes:

- Liability insurance of air carrier against damage caused to passengers, baggage, mail, cargo;
- Liability insurance of aircraft operators against damage caused to third parties;
- Insurance of aircraft crew and other aviation personnel;
- Aircraft casco insurance;
- Insurance of aerial work requester's employees, personnel, connected with the provision of technological process during the aerial works.

Since 2007 the Company performs the reinsurance of aviation risks, including risks of national air carriers Belavia-Belarusian Airlines and Transaviaexport Airlines. Liability limits for the reinsurance contracts are as follows:

- CASCO of aircrafts – up to USD 44,2 million (BYR 132 600 million);
- Liability insurance of aircraft owners – up to USD 750 million (BYR 2 250 000 million).

Aircraft fleet of national air carriers includes six Boeing 737-500, three Boeing 737-300, four CRJ-100/200 LR, four Tu-154, six Il-76GD, one CL-600-2819 (Challenger-850).

Reinsurance of aviation risks in mentioned above amounts is possible to be provided with help of an extensive reinsurance system. From the insured amount point of view aviation risks are the largest ones from all lines of business (dozens and thousands of millions of dollars). Therefore, in order to reinsure such risks the global insurance market's services are required. This can't be done without reinsurance contracts with international insurance brokers.

Ceding of risks is performed on the facultative quota share basis. Ceding broker on international markets is Willis Limited (UK). Retrocessioners are syndicates Lloyd's (UK), Munich Re (Germany), Allianz Global Corporate&Specialty AG (Germany), Swiss Re AG (Germany), Chartis Ltd (UK), Liberty Mutual Insurance Europe Ltd (UK), Aviabel S.A. Brussels (Belgium), Aspen Insurance (UK), Generali IARD (France), Ingosstrakh Insurance Company (Russia).

### *Property insurance*

This insurance covers losses incurred as a result of damage to the property of individuals and legal entities. Assumed reinsurance portfolio of the Company for this line of business includes the following types of insurance:

- Catastrophic risks insurance;
- Building and construction risks insurance;
- Citizens' homestead insurance;
- Citizens' buildings insurance;
- Companies' property insurance;
- Insurance of animals belonging to legal entities;

## *Notes to the financial statements*

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- Cash counter insurance;
- Insurance of space risks.

According to the limit policy of the Company there are limits of the provided reinsurance protection stated and quarterly reviewed at the Company's Insurance Committee meetings. When assuming the contracts in reinsurance the risks are thoroughly appraised and there is performed the analysis of:

- The information on the object of insurance (its characteristics, period of insurance, location);
- The information on the amount of cover (specification of risks);
- Economic indicators (insurance amount, premiums, deductibles, priority of the reinsured, order of reinsurance premium payment);
- Historical information on loss development;
- The existence of the cumulation risk;
- Other available data related to the risks' estimation.

### *Pecuniary insurance (including the risk of outstanding debt repayment)*

Pecuniary (financial) risk is a risk of losses arising from the breach of obligations by the counterparty of the policyholder connected with the entrepreneurial activities of the policyholder. This insurance covers losses incurred as a result of the neglect (not proper fulfillment) of obligations by the policyholder's counterparty for the following types of transactions:

- Non-delivery, incomplete delivery of goods, non-transfer of property, non-fulfillment of works, services by the time set in contract;
- Repayment of debt issued by insured;
- Rent, including leasing;
- Cash payment in terms and amounts set by the conditions of bonds issue;
- Storage keeping;
- Pledging of security (guarantee).

In order to minimize the losses, connected with insurance (reinsurance) of pecuniary risks, qualitative and thorough analysis of customer's, debtor's, issuer's financial performance is performed, using the data from their financial statements, then the decision whether it's possible to assume these risks in reinsurance is made by the Insurance Committee.

The majority of pecuniary risks are assumed in reinsurance from the following companies: BRUIC "Belgosstrakh", Export-import insurance company of the Republic of Belarus "Eximgarant", UJSC «Belvneshstrakh», CJSC «Promtransinvest», CJSC "Belneftestrakh".

### *Motor insurance (third party liability of motor vehicles owners – green card)*

Since 1 June 2007 the Republic of Belarus is a full member of the International green card insurance system. The Company has been ceding belarusian "green card" certificates since 2008. Since 2010 the priority of belarusian "green card" certificates reinsurance contracts kept by national insurance market has risen from EUR 269,000 to EUR 500,000.

The leading reinsurers of belarusian "green card" certificates reinsurance contracts in 2011 is Partner Re, solidary reinsurer - Munich Re. Ceding broker – «Marsh – Insurance Brokers».

The Company assumes in reinsurance a part of first and second levels of the obligatory reinsurance contract on belarusian "green card" certificates. The planned premium income of belarusian insurance companies in 2012 from belarusian "green card" certificates insurance contracts is EUR 27,500,000.

### *Liability insurance*

Liability insurance covers losses associated with the emergence of the policyholder liabilities for damages to third parties on account of any act or omission by the insured. The Company assumes in reinsurance the following types of third party liability insurance:

- Third party liability insurance:
  - \* Third party liability insurance of legal entities;
  - \* Third party liability insurance of minor ships' owners;
  - \* Third party liability insurance against non-fulfillment of public contract's obligations;
  - \* Third party liability insurance of reactor operator;

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- \* Third party liability insurance against nuclear damage;
- \* Third party liability insurance against harm caused due to professional activity;
- \* Third party liability custom authorities insurance;
- \* Third party liability insurance of commodity producer;
- \* Third party liability insurance of carrier and forwarder;
- \* Third party liability insurance of high-threat organizations;
- \* Third party liability insurance of employer;
- \* Third party liability insurance against harm caused to third parties;
- \* Third party liability insurance of local carriers;
- \* Liability insurance against constructional defects;
- Insurance against bank risks;
- Insurance against the loss of ownership of property;
- Insurance against the non-fulfillment of obligations under the contract of shared construction;
- Custom authorities insurance (cornet);
- Insurance against losses due to forced disruption of production;
- Insurance against other types of liabilities;
- Carnet insurance.

According to the limit policy of the Company there are limits of the provided reinsurance protection stated and quarterly reviewed at the Company's Insurance Committee meetings.

Carnet insurance is represented by one quota share basis assumed reinsurance and retrocession agreement. The Company assumes 65 per cent of responsibility, leaves 15 per cent on its own retention and cedes 50 per cent through the reinsurance broker R.L. Davison & Co Ltd. to syndicate Lloyd's.

### *Transport insurance (CASCO)*

Means the reinsurance of risks connected with compensation of losses which arise from damage to, destruction or loss of vehicle. This line of business is represented by assuming in reinsurance the following types of insurance:

- Individuals' vehicle insurance;
- Legal entities' vehicle insurance;
- Insurance of agricultural machines;
- Insurance of ships;
- Rail transport insurance.

### *Marine insurance*

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. The Company assumes in reinsurance the following groups of marine insurance agreements:

- Contractual – supposes the contract of marine insurance is concluded with insurer, which for the certain fee (premium) undertakes the responsibility to reimburse losses resulting from a claim accident to the insured or insurance beneficiary.
- Mutual – takes part at mutual insurance clubs. The main feature of mutual insurance is the reimbursement of possible losses of the member of the mutual insurance club from the mutual fund composed from the club members' fees.

The Company assumes in reinsurance the following types of marine insurance agreements:

- Marine (river) CASCO – the insurance of ship's hull and equipment. The main risks covered include:
  - \* Collision of ships;
  - \* Damage of freight due to bad weather conditions;
  - \* Running aground;
  - \* Fire, explosion, lightning stroke;
  - \* General accident;
  - \* Other risks.

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- Freight insurance. Freight gross value is insured, including ship owner's profit and costs of insurance.

Ship owner's third party liability insurance is usually maintained through insurance clubs on these clubs' conditions.

Since 2007 The Company has been reinsuring marine risks, including risks of The Joint Stock Company "Belarusian Potash Company". Responsibility limit of ship owner's third party liability insurance is USD 80 million. Reinsurance of marine risks in mentioned above amounts is possible to be provided with help of an extensive reinsurance system, involving reinsurance capacity of the worldwide insurance market. This is impossible without reinsurance contracts with worldwide insurance brokers. Ceding of risks is performed on the facultative quota share basis. Ceding broker on the foreign markets is Filhet Allard Maritime (France). Retrocessioners are AMLIN CORPORATE INSURANCE plc.

Marine insurance line of business includes also insurance of cargo, which consists of marine, air, railway and mixed types of cargo insurance.

The Company assumes in reinsurance three main options:

- All risks;
- With responsibility for particular accident;
- Without responsibility for particular accident.

### ***Accident insurance***

Accident insurance provides a benefit in the event damage to health or death of the insured, it also allows to compensate costs of treatment and losses due to disablement. The Company offers reinsurance cover on the following types of risk:

- Accident and disease insurance during the trip abroad;
- Accident insurance at the expense of legal entities;
- Accident insurance of individuals, etc.

In order to minimize the risks connected with assuming the above mentioned risks in reinsurance the Company thoroughly appraises them, analyzes the historical information on losses, the information about the object of insurance, the existence of cumulation on risk, other available data related to the level of risk's estimation.

It's worth mentioning that the Company strictly limits the reinsurance of risks connected with accident and disease insurance during the trip abroad due to a high possibility of cumulation of these risks.

### ***(b) Insurance risk concentration***

Within the assumed reinsurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

The Company's management is aware that there is an insurance concentration risk. Risk concentration may occur as a result of different coincidences and regularities. Most often risk concentration is observed in a specific type of insurance in which private persons are insured; e.g. with personal accident insurance this occurs when a Company of persons suffers from a personal accident and all of these persons have been insured in the Company. In property insurance, risk concentration might occur if one densely populated area experiences any of the exposures (e.g. fire), which may easily transfer from one property to another one and this action cannot be avoided.

In addition, the management is aware that the possible risk concentration can be in one company or an economic area in total, for which several risks are assumed in reinsurance by the Company. When assuming in reinsurance such risks, an obligatory precondition is the assessment of the company's financial position and capacity, as well as identifying how large financial liabilities can arise, how large the liabilities are that are already held by the Company and what it can afford. When evaluating financial risks, the tendencies of economic growth and the risks that might impact this area are studied.

The Company's key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The

## ***Notes to the financial statements***

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Company purchases reinsurance coverage for various classes of its business. The Company assesses the costs and benefits associated with the reinsurance program on an ongoing basis.

### ***(c) Catastrophes***

The Company's management is aware that catastrophe risks are possible. The Company assumes risks from different geographical areas and these risks are mostly connected with meteorological phenomena: storms, floods, nature disasters (hail, snow, icing, etc.). Large fires and earthquakes are unlikely, but they may occur.

In order to minimise the impact of catastrophe risk on the Company, reinsurance is used. In addition, facultative reinsurance is purchased for large risks.

### ***(d) Insurance risk management***

In order to restrict insurance risk, the Company has developed different control and management mechanisms. The Company has the Insurance Committee which has responsibility for monitoring the risks underwritten by the Company and the retrocessional coverage of the Company. Key performance indicators that are important to the achievement of financial objectives are identified and monitored to identify any unusual or unexpected trends or relationships.

In order to minimise insurance risks, the Company has developed and uses the quality management system, which describes all processes and reserves that are carried out in the Company during the insurance administration process and the claims regulation procedures. It has been identified when and in what circumstances certain types of procedures should be observed.

Many claims and subsequent recoveries take several years to materialise. Although the financial results cannot be established with certainty, the Company sets provisions for irrecoverable claims based upon current perceptions of risk, employing a substantial degree of experience and judgment. The level of such provisions has been set on the basis of information which is currently available. Whilst the Company considers that claims provisions and related recoveries are fairly stated on the basis of the information currently available to it, the ultimate liability will vary as a result of subsequent information and events. This may result in significant adjustments to the amounts provided. These estimates and methods of estimation are reviewed at least annually and, if adjustments prove necessary, they will be reflected in future financial statements.

### ***(e) Sensitivity analysis for insurance liabilities***

The process used to undertake sensitivity analysis on the assumptions used is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate case by case basis, with due regard to the claim circumstances, information available to loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on the information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The most significant assumptions are related to the estimations of the RBNS reserve and URR reserve. Considering the current market situation, the Company believes that the most volatile assumptions related to RBNS are inflation and currency exchange rate fluctuations.

The table below presents the change in RBNS as at 31 December 2011 in the case of 20 per cent currency devaluation or 5 per cent currency deflation.

## Notes to the financial statements

*In millions of BYR*

Line of business	RBNS, as at 31 December 2011	Increased RBNS if projected annual inflation increased by 20%	Decreased RBNS if projected annual inflation decrease by 5%
Aviation	1 696	2 035	1 611
Property	13 148	15 779	12 491
Pecuniary	102	122	97
Motor	8 922	10 706	8 476
Transport	585	702	556
Liability	3 181	3 817	3 022
Marine	-	-	-
Accident	412	494	391
	<b>28 046</b>	<b>33 655</b>	<b>26 644</b>

The table below presents the change in RBNS as at 31 December 2011 in the case of 30 per cent negative and 5 per cent positive change in currency exchange rate.

*In millions of BYR*

Currency	RBNS, as at 31 December 2011	Increased RBNS if projected foreign currency devaluation is 30%	Decreased RBNS if projected foreign currency appreciation is 5%
BYR	903	903	903
USD	8 926	11 604	8 480
EUR	10 326	13 424	9 810
RUR	7 891	10 258	7 496
	<b>28 046</b>	<b>36 189</b>	<b>26 689</b>

### (f) Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject. The claim table discloses a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such corrections made in the prior years may be included as part of the corrections made during the prior years.

The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to changes in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past remains or deficits in respect to the balance of unpaid losses of this period. Management considers evaluation of technical reserves as at 31 December 2011 as adequate.

Financial statements for the year ended 31 December 2010 were the Company's first financial statements prepared in accordance with IFRSs and the following table represents claim development analysis for the four year period IFRSs have been applied to.

#### Claim development analysis, millions of BYR

	Year of insurance event occurrence				Total
	2008 (restated)	2009 (restated)	2010 (restated)	2011	
Estimate of cumulative claims at end of accident year	29 602	27 804	29 602	27 804	23 722
- one year later (2009 (restated))	28 218	22 966	30 204	-	30 204
- two years later (2010 (restated))	27 449	22 945	-	-	22 945
- three years later (2011)	28 648	-	-	-	28 648
Cumulative payments to date	21 018	22 009	19 755	1 873	64 655
<b>Outstanding claims reserves at 31 December 2011</b>	<b>7 630</b>	<b>936</b>	<b>10 449</b>	<b>21 849</b>	<b>40 864</b>

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### ***4.4 Financial risks and risk management***

The Company is exposed to financial risks due to operations with financial instruments. Financial risks include market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk. Below is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business.

The Company's financial assets and liabilities, including investments, insurance receivables and reinsurance assets, are exposed to financial risk as follows:

- *Market risk*: changes to the market situation may adversely impact the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate risk, equity price risk and currency risk;
- *Credit risk*: failure to fulfill a contractual obligation may cause financial losses to the Company,
- *Liquidity risk*: under certain adverse conditions for the insurer, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.

#### ***(a) Market risks***

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Company's income or the value of its portfolios.

Market risks comprise:

- interest rate risk;
- currency risk;
- price risk.

Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, set and regularly reviewed by the management of the Company, while optimising the return.

#### ***i) Interest rate risk***

Interest rate risk is the risk that movements in interest rates will affect the Company's income or the value of its portfolios of financial instruments.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

The following interest rate repricing analysis tables presents the Company's financial assets and liabilities analysis according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing:

## *Notes to the financial statements*

### **Rate repricing analysis as at 31 December 2011**

<i>In millions of BYR</i>	<b>Interest rate</b>	<b>Up to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Financial assets</b>						
Available-for-sale financial assets	-	-	-	-	540 973	<b>540 973</b>
Held to maturity financial assets	46.5%	167	2 032	-	-	<b>2 199</b>
Deposits with banks	6-50%	131 113	60 097	-	-	<b>191 210</b>
Receivables from direct insurance activities	-	-	-	-	57 797	<b>57 797</b>
Receivables from reinsurance activities	-	-	-	-	985	<b>985</b>
Cash and cash equivalents	9.5%	18 746	-	-	5 568	<b>24 314</b>
<b>Total financial assets</b>	-	<b>150 026</b>	<b>62 129</b>	-	<b>605 323</b>	<b>817 478</b>
<b>Financial liabilities</b>						
Direct insurance creditors	-	-	-	-	(3 023)	<b>(3 023)</b>
Reinsurance creditors	-	-	-	-	(20 421)	<b>(20 421)</b>
Part of other creditors	-	-	-	-	(127)	<b>(127)</b>
<b>Total financial liabilities</b>	-	-	-	-	<b>(23 571)</b>	<b>(23 571)</b>

### **Rate repricing analysis as at 31 December 2010 (restated)**

<i>In millions of BYR</i>	<b>Interest rate</b>	<b>Up to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Financial assets</b>						
Available-for-sale financial assets	-	-	-	-	1 002 405	<b>1 002 405</b>
Held to maturity financial assets	12%	58	4 241	-	-	<b>4 299</b>
Deposits with banks	6-13%	114 862	64 082	-	-	<b>178 944</b>
Receivables from direct insurance activities	-	-	-	-	39 121	<b>39 121</b>
Receivables from reinsurance activities	-	-	-	-	632	<b>632</b>
Cash and cash equivalents	6.5-13.5%	17 852	-	-	2 310	<b>20 162</b>
<b>Total financial assets</b>	-	<b>132 772</b>	<b>68 323</b>	-	<b>1 044 468</b>	<b>1 245 563</b>
<b>Financial liabilities</b>						
Direct insurance creditors	-	-	-	-	(2 310)	<b>(2 310)</b>
Reinsurance creditors	-	-	-	-	(13 476)	<b>(13 476)</b>
Part of other creditors	-	-	-	-	(200)	<b>(200)</b>
<b>Total financial liabilities</b>	-	-	-	-	<b>(15 986)</b>	<b>(15 986)</b>

### *Interest rate sensitivity analysis*

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

The Company is subject to interest risk mainly on deposits in banks and investments held to maturity nominated in Belarussian rubles at floating interest depending on the interest rate stated by the National Bank of the Republic of Belarus. Interest rates for assets are mostly fixed and the Company does not have interest bearing liabilities as at 31 December 2011 and 2010.

The table below represents impact on income and equity of change by 100 basis points in floating interest

## Notes to the financial statements

rates as at the reporting date with assumption that all other terms are unchangeable:

<i>In millions of BYR</i>	2011	2010 (restated)
	Profit before income tax expense	Profit before income tax expense
Increase of interest rates by 100 basis points	1 363	1 048
Decrease of interest rates by 100 basis points	(1 363)	(1 048)

### ii) Currency risk

The Company has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

On 24 May 2011 and 21 October 2011 the National Bank of the Republic of Belarus devalued the Belarusian rubles against foreign currencies by 54.42 and 50.90 per cent, respectively. An analysis of the sensitivity of the Company's income for the year and its equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a change in EUR and USD to BYR exchange rates is as follows (in millions of BYR):

<i>In millions of BYR</i>	2011	2010 (restated)		
	Profit before income tax expense	Profit after income tax expense	Profit before income tax expense	Profit after income tax expense
20% appreciation of EUR against BYR	15 845	12 042	7 472	5 508
5% depreciation of EUR against BYR	(3 961)	(3 010)	(1 868)	(1 377)
20% appreciation of USD against BYR	9 305	7 072	6 128	4 518
5% depreciation of USD against BYR	(2 326)	(1 768)	(1 532)	(1 129)
20% appreciation of RUB against BYR	7 122	5 413	3 452	2 545
5% depreciation of RUB against BYR	(1 780)	(1 353)	(863)	(636)

The following table provides the analysis of the Company's financial assets and liabilities by currency profile:

### Company's financial assets and liabilities currency profile as at 31 December 2011

<i>In millions of BYR</i>	BYR	USD	EUR	RUB	Other	Total
<b>Financial assets</b>						
Available-for-sale financial assets	540 973	-	-	-	-	540 973
Held to maturity financial assets	2 199	-	-	-	-	2 199
Deposits with banks	77 645	17 750	62 251	33 564	-	191 210
Receivables from direct insurance activities	10 051	25 395	19 756	2 033	562	57 797
Receivables from reinsurance activities	78	675	189	40	3	985
Cash and cash equivalents	2 773	20 206	860	475	-	24 314
<b>Total financial assets</b>	<b>633 719</b>	<b>64 026</b>	<b>83 056</b>	<b>36 112</b>	<b>565</b>	<b>817 478</b>
<b>Financial liabilities</b>						
Direct insurance creditors	(614)	(1 163)	(928)	(106)	(212)	(3 023)
Reinsurance creditors	(761)	(16 336)	(2 901)	(397)	(26)	(20 421)
Part of other creditors	(127)	-	-	-	-	(127)
<b>Total financial liabilities</b>	<b>(1 502)</b>	<b>(17 499)</b>	<b>(3 829)</b>	<b>(503)</b>	<b>(238)</b>	<b>(23 571)</b>
<b>Open currency position</b>	<b>632 217</b>	<b>46 527</b>	<b>79 227</b>	<b>35 609</b>	<b>327</b>	<b>793 907</b>

## *Notes to the financial statements*

### **Company's financial assets and liabilities currency profile as at 31 December 2010 (restated)**

<i>In millions of BYR</i>	<b>BYR</b>	<b>USD</b>	<b>EUR</b>	<b>RUB</b>	<b>Other</b>	<b>Total</b>
<b>Financial assets</b>						
Available-for-sale financial assets	1 002 405	-	-	-	-	<b>1 002 405</b>
Held to maturity financial assets	4 299	-	-	-	-	<b>4 299</b>
Deposits with banks	125 293	20 578	29 765	3 308	-	<b>178 944</b>
Receivables from direct insurance activities	10 189	21 347	6 054	1 306	225	<b>39 121</b>
Receivables from reinsurance activities	75	373	157	17	10	<b>632</b>
Cash and cash equivalents	5 501	436	1 382	12 843	-	<b>20 162</b>
<b>Total financial assets</b>	<b>1 147 762</b>	<b>42 734</b>	<b>37 358</b>	<b>17 474</b>	<b>235</b>	<b>1 245 563</b>
<b>Financial liabilities</b>						
Direct insurance creditors	(574)	(1 237)	(434)	(40)	(25)	<b>(2 310)</b>
Reinsurance creditors	(735)	(10 857)	(1 578)	(175)	(131)	<b>(13 476)</b>
Part of other creditors	(200)	-	-	-	-	<b>(200)</b>
<b>Total financial liabilities</b>	<b>(1 509)</b>	<b>(12 094)</b>	<b>(2 012)</b>	<b>(215)</b>	<b>(156)</b>	<b>(15 986)</b>
<b>Open currency position</b>	<b>1 146 253</b>	<b>30 640</b>	<b>35 346</b>	<b>17 259</b>	<b>79</b>	<b>1 229 577</b>

#### *iii) 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 instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

The Company's investment portfolio is not sensitive to financial instruments market price risk as at 31 December 2011 and 2010 there are no financial instruments with quoted market price in the investment portfolio.

#### *(b) Credit risk*

Credit risk is the risk incurred by failure of contractual parties to meet their liabilities or changes in credit worthiness of the contractual parties.

#### *Carrying amounts versus estimated fair values*

The carrying amounts of financial assets, together with the estimated fair values shown in the statement of financial position, are as follows:

<i>In millions of BYR</i>	<b>31 December 2011</b>		<b>31 December 2010 (restated)</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
<b>Financial Assets</b>				
Available for sale financial assets	540 973	540 973	1 002 405	1 002 405
Held to maturity financial assets	2 199	1 927	4 299	4 239
Deposits with banks	191 210	191 210	178 944	178 944
Receivables from direct insurance activities	57 797	57 797	39 121	39 121
Receivables from reinsurance activities	985	985	632	632
Cash and cash equivalents	24 314	24 314	20 162	20 162
<b>Total financial assets</b>	<b>817 478</b>	<b>817 206</b>	<b>1 245 563</b>	<b>1 245 503</b>

Credit risk of the Company is related to management of the financial investments, insurance receivables from direct insurance and reinsurance operations and other receivables.

## *Notes to the financial statements*

### *i) Maximum credit risk*

Exposure to maximum credit risk is managed through the regular analysis of the ability of issuers and borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these exposures where appropriate.

*In millions of BYR*

	31 December 2011		31 December 2010 (restated)	
	Gross	Net	Gross	Net
<b>Maximum credit risk</b>				
Available for sale financial assets	1 002 405	540 973	1 002 405	1 002 405
Held to maturity financial assets	2 199	2 199	4 299	4 299
Deposits with banks	191 210	191 210	178 944	178 944
Receivable from direct insurance activities	57 915	57 797	39 211	39 121
Receivables from reinsurance activities	985	985	632	632
Cash and cash equivalents	24 314	24 314	20 162	20 162
<b>Total</b>	<b>1 279 028</b>	<b>817 478</b>	<b>1 245 653</b>	<b>1 245 563</b>

*Investment analysis by ratings as at 31 December 2011, in millions of BYR:*

Ratings by Fitch	Deposits with banks	Held to maturity financial assets	Available for sale financial assets	Total
B	27 304	-	486 839	514 143
B-	133 518	2 199	-	135 717
No rating	30 388	-	54 134	84 522
	<b>191 210</b>	<b>2 199</b>	<b>540 973</b>	<b>487 807</b>

### *ii) Insurance receivables from direct insurance operations*

Direct insurance amounts receivable are monitored by management on a periodic basis and contracts are cancelled if appropriate notification has been provided to the reinsured and the amounts due are not paid.

### *iii) Reinsurance*

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related assumed reinsurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided to the Company based on the expected pattern of the reinsured risks. The unearned portion of ceded reinsurance premiums is included in reinsurance assets.

The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the Company in respect of its rights under such contracts.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related assumed reinsurance contracts.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as receivables and are included within insurance and other receivables in the statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

## *Notes to the financial statements*

The reinsurance cession result was negative at the December 31, 2011 and 2010 in the amount of BYR66,803 million and BYR51,730 million, respectively (Note 18).

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys both facultative and obligatory proportional and non-proportional reinsurance. For the details of retrocession programs for particular lines of business refer to note 4.3(a).

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

During 2011 and 2010, there have been no cases where a retrocessioner had not met its liabilities to the Company.

The majority of risks are ceded to the reinsurance brokers, therefore, the ultimate reinsurer is not known to the Company.

### *(c) Liquidity risks*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The Company manages its asset and liability structure so as to meet its obligations as and when they fall due. The potential liquidity risk is limited by investing a certain amount of funds in short term deposits and other funds with a high degree of liquidity.

The tables below show the allocation of the Company's financial assets and liabilities to maturity groups based on the time remaining from the reporting date to the contractual maturity dates as at 31 December 2011 and 31 December 2010 (restated):

#### **Maturity dates of the Company's financial assets and liabilities as at 31 December 2011**

<i>In millions of BYR</i>	<b>Up to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>No fixed term</b>	<b>Total</b>
<b>Financial assets</b>					
Available-for-sale financial assets	-	-	-	540 973	<b>540 973</b>
Held to maturity financial assets	2 199	-	-	-	<b>2 199</b>
Deposits with banks	131 113	60 097	-	-	<b>191 210</b>
Receivables from direct insurance activities	41 991	15 343	463	-	<b>57 797</b>
Receivables from reinsurance activities	890	90	5	-	<b>985</b>
Cash and cash equivalents	24 314	-	-	-	<b>24 314</b>
<b>Total financial assets</b>	<b>200 507</b>	<b>75 530</b>	<b>468</b>	<b>540 973</b>	<b>817 478</b>
<b>Financial liabilities</b>					
Direct insurance creditors	(2 474)	(527)	(22)	-	<b>(3 023)</b>
Reinsurance creditors	(19 345)	(962)	(114)	-	<b>(20 421)</b>
Part of other creditors	(127)	-	-	-	<b>(127)</b>
<b>Total financial liabilities</b>	<b>(21 946)</b>	<b>(1489)</b>	<b>(136)</b>	<b>-</b>	<b>(23 571)</b>
<b>Financial assets and liabilities maturity gap</b>	<b>178 561</b>	<b>74 041</b>	<b>332</b>	<b>540 973</b>	<b>793 907</b>

## *Notes to the financial statements*

### **Maturity dates of the Company's financial assets and liabilities as at 31 December 2010 (restated)**

<i>In millions of BYR</i>	<b>Up to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>No fixed term</b>	<b>Total</b>
<b>Financial assets</b>					
Available-for-sale financial assets	-	-	-	1 002 405	<b>1 002 405</b>
Held to maturity financial assets	58	4 241	-	-	<b>4 299</b>
Deposits with banks	114 863	64 081	-	-	<b>178 944</b>
Receivables from direct insurance activities	12 368	26 382	371	-	<b>39 121</b>
Receivables from reinsurance activities	603	29	-	-	<b>632</b>
Cash and cash equivalents	20 162	-	-	-	<b>20 162</b>
<b>Total financial assets</b>	<b>148 054</b>	<b>94 733</b>	<b>371</b>	<b>1 002 405</b>	<b>1 245 563</b>
<b>Financial liabilities</b>					
Direct insurance creditors	(895)	(1 398)	(17)	-	<b>(2 310)</b>
Reinsurance creditors	(13 115)	(355)	(6)	-	<b>(13 476)</b>
Part of other creditors	(200)	-	-	-	<b>(200)</b>
<b>Total financial liabilities</b>	<b>(14 210)</b>	<b>(1 753)</b>	<b>(23)</b>	<b>-</b>	<b>(15 986)</b>
<b>Financial assets and liabilities maturity gap</b>	<b>133 844</b>	<b>92 980</b>	<b>348</b>	<b>1 002 405</b>	<b>1 229 577</b>

Liquidity risk management specific to insurance and reinsurance companies is connected with the monitoring of insurance liabilities. Remaining maturities of insurance liabilities are presented in Note 29.

#### **4.5 Operating risks and risk management**

Operational risks arise from deficiencies and errors in processes which may occur due to staff error or under the influence of external factors. These risks are managed by internal control, internal processes and procedures and monitoring of performance.

#### **(5) Net written premiums**

<i>In millions of BYR</i>	<b>2011</b>			<b>2010 (restated)</b>		
	<b>Gross written premiums</b>	<b>Reinsurers' share in premiums</b>	<b>Net written premiums</b>	<b>Gross written premiums</b>	<b>Reinsurers' share in premiums</b>	<b>Net written premiums</b>
Aviation	36 865	(31 433)	5 432	31 887	(26 457)	5 430
Property	44 730	(18 096)	26 634	25 266	(12 169)	13 097
Pecuniary	44 995	(2 772)	42 223	27 271	(796)	26 475
Motor	20 003	(16 526)	3 477	11 496	(8 148)	3 348
Transport	6 002	(29)	5 973	10 356	(61)	10 295
Liability	15 476	(5 344)	10 132	13 265	(5 597)	7 668
Marine	8 410	(4 415)	3 995	5 025	(2 136)	2 889
Accident	1	-	1	73	-	73
	<b>176 482</b>	<b>(78 615)</b>	<b>97 867</b>	<b>124 639</b>	<b>(55 365)</b>	<b>69 274</b>

In 2011 BYR 151 519 million of premiums were underwritten on the territory of the Republic of Belarus (2010: BYR 115 762 million). The majority of risks ceded were reinsured with foreign brokers and therefore, the ultimate location of the risks holder is not certain.

## Notes to the financial statements

### (6) Net earned premiums

<i>In millions of BYR</i>	2011			2010 (restated)		
	Gross earned	Reinsurers' share in	Net earned	Gross earned	Reinsurers' share in	Net earned
	premiums	premiums	premiums	premiums	premiums	premiums
Aviation	31 577	(26 446)	5 131	33 712	(28 833)	4 879
Property	35 347	(18 686)	16 661	20 645	(7 918)	12 727
Pecuniary	9 619	(1 119)	8 500	15 815	(475)	15 340
Motor	20 003	(16 526)	3 477	11 496	(8 148)	3 348
Transport	7 392	(60)	7 332	6 307	(111)	6 196
Liability	15 493	(5 331)	10 162	13 611	(5 973)	7 638
Marine	7 537	(4 030)	3 507	6 417	(4 617)	1 800
Accident	11	-	11	70	-	70
	<b>126 979</b>	<b>(72 198)</b>	<b>54 781</b>	<b>108 073</b>	<b>(56 076)</b>	<b>51 997</b>

### (7) Technical reserves for unearned premiums and unexpired risk technical reserves

<i>In millions of BYR</i>	Gross	Reinsurers' share	Net
<b>Balance at 31 December 2009 (restated)</b>	<b>42 555</b>	<b>(17 768)</b>	<b>24 787</b>
<i>Written premiums</i>	<i>124 639</i>	<i>(55 365)</i>	<i>69 274</i>
<i>Premiums earned</i>	<i>(108 073)</i>	<i>56 076</i>	<i>(51 997)</i>
Changes during year	16 566	711	17 277
<b>Balance at 31 December 2010 (restated)</b>	<b>59 121</b>	<b>(17 057)</b>	<b>42 064</b>
<i>Written premiums</i>	<i>176 482</i>	<i>(78 615)</i>	<i>97 867</i>
<i>Premiums earned</i>	<i>(126 979)</i>	<i>72 198</i>	<i>(54 781)</i>
Changes during year	49 503	(6 417)	43 086
<b>Balance at 31 December 2011</b>	<b>108 624</b>	<b>(23 474)</b>	<b>85 150</b>

<i>In millions of BYR</i>	31 December 2011			31 December 2010 (restated)		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
UPR	104 790	(23 474)	81 316	55 287	(17 057)	38 230
URR	3 834	-	3 834	3 834	-	3 834
	<b>108 624</b>	<b>(23 474)</b>	<b>85 150</b>	<b>59 121</b>	<b>(17 057)</b>	<b>42 064</b>

Technical reserves for unearned premiums and unexpired risk technical reserves as at 31 December 2011 by currencies were as follows:

<i>In millions of BYR</i>	BYR	USD	EUR	RUR	Other	Total
Technical reserves for unearned premiums and unexpired risks, gross	35 783	30 665	24 720	17 147	309	108 624
Technical reserves for unearned premiums and unexpired risks, net	33 966	13 727	20 692	16 456	309	85 150

Technical reserves for unearned premiums and unexpired risk technical reserves as at 31 December 2010 (restated) by currencies were as follows:

<i>In millions of BYR</i>	BYR	USD	EUR	RUR	Other	Total
Technical reserves for unearned premiums and unexpired risks, gross	20 098	23 724	13 081	1 901	317	59 121
Technical reserves for unearned premiums and unexpired risks, net	18 771	13 774	7 566	1 672	281	42 064

## Notes to the financial statements

### (8) Net paid claims

<i>In millions of BYR</i>	2011			2010 (restated)		
	Gross claims paid	Reinsurers' share in claims	Net claims paid	Gross claims paid	Reinsurers' share in claims	Net claims paid
Aviation	541	-	541	395	-	395
Property	11 697	-	11 697	3 317	(9)	3 308
Pecuniary	(6 626)	-	(6 626)	2 484	-	2 484
Motor	-	-	-	-	-	-
Transport	6 592	-	6 592	5 470	-	5 470
Liability	501	-	501	537	-	537
Marine	1 697	(1 444)	253	3 335	(3 230)	105
Accident	46	-	46	60	-	60
	<b>14 448</b>	<b>(1 444)</b>	<b>13 004</b>	<b>15 598</b>	<b>(3 239)</b>	<b>12 359</b>

### (9) Outstanding claim technical reserve

*In millions of BYR*

	Gross	Reinsurers' share	Net
<b>Balance at 31 December 2009 (restated)</b>	<b>(21 476)</b>	<b>6 161</b>	<b>(15 315)</b>
<i>Claims incurred during the period</i>	<i>(26 020)</i>	<i>2 844</i>	<i>(23 176)</i>
<i>Claims paid</i>	<i>15 598</i>	<i>(3 239)</i>	<i>12 359</i>
Changes during year	(10 422)	(395)	(10 817)
<b>Balance at 31 December 2010 (restated)</b>	<b>(31 898)</b>	<b>5 766</b>	<b>(26 132)</b>
<i>Claims incurred during the period</i>	<i>(23 414)</i>	<i>2 667</i>	<i>(20 747)</i>
<i>Claims paid</i>	<i>14 448</i>	<i>(1 444)</i>	<i>13 004</i>
Changes during year	(8 966)	1 223	(7 743)
<b>Balance at 31 December 2011</b>	<b>(40 864)</b>	<b>6 989</b>	<b>(33 875)</b>

*In millions of BYR*

	31 December 2011			31 December 2010 (restated)		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
RBNS	28 046	(6 989)	21 057	21 327	(5 766)	15 561
IBNR	12 818	-	12 818	10 571	-	10 571
	<b>40 864</b>	<b>(6 989)</b>	<b>33 875</b>	<b>31 898</b>	<b>(5 766)</b>	<b>26 132</b>

Outstanding claim technical reserve as at 31 December 2011 by currencies was as follows:

<i>In millions of BYR</i>	BYR	USD	EUR	Other	Total
Outstanding claim technical reserves, gross	13 721	8 926	10 326	7 891	<b>40 864</b>
Outstanding claim technical reserves, net	13 719	8 260	4 005	7 891	<b>33 875</b>

Outstanding claim technical reserve as at 31 December 2010 (restated) by currencies was as follows:

<i>In millions of BYR</i>	BYR	USD	EUR	RUR	Total
Outstanding claim technical reserves, gross	11 542	3 018	6 008	11 330	<b>31 898</b>
Outstanding claim technical reserves, net	11 540	2 133	1 129	11 330	<b>26 132</b>

## Notes to the financial statements

### (10) Claims incurred

<i>In millions of BYR</i>	<b>2011</b>			<b>2010 (restated)</b>		
	<b>Gross claims incurred</b>	<b>Reinsurers' share in claims</b>	<b>Net claims incurred</b>	<b>Gross claims incurred</b>	<b>Reinsurers' share in claims</b>	<b>Net claims incurred</b>
Aviation	1 890	(101)	1 789	273	278	551
Property	13 893	(267)	13 626	10 680	1	10 681
Pecuniary	(6 183)	-	(6 183)	2 694	-	2 694
Motor	3 623	(1 469)	2 154	241	524	765
Transport	6 329	-	6 329	7 276	-	7 276
Liability	2 563	-	2 563	1 162	-	1 162
Marine	1 185	(830)	355	3 650	(3 647)	3
Accident	114	-	114	44	-	44
	<b>23 414</b>	<b>(2 667)</b>	<b>20 747</b>	<b>26 020</b>	<b>(2 844)</b>	<b>23 176</b>

### (11) Change in deferred client acquisition costs

<i>In millions of BYR</i>		
<b>Balance at 31 December 2009 (restated)</b>		<b>2 708</b>
<i>Written commissions</i>		(7 612)
<i>Deferred commissions allocated to statement of comprehensive income</i>		8 033
	Changes during year	421
<b>Balance at 31 December 2010 (restated)</b>		<b>3 129</b>
<i>Written commissions</i>		(8 560)
<i>Deferred commissions allocated to statement of comprehensive income</i>		10 738
	Changes during year	2 178
<b>Balance at 31 December 2011</b>		<b>5 307</b>

In 2011 and 2010 client acquisition costs were as follows:

<i>In millions of BYR</i>	<b>2011</b>	<b>2010 (restated)</b>
Aviation	1 349	1 227
Property	2 429	1 542
Pecuniary	1 817	1 473
Motor	-	-
Transport	453	1 309
Liability	1 976	1 503
Marine	536	553
Accident	-	5
	<b>8 560</b>	<b>7 612</b>

<i>In millions of BYR</i>	<b>2011</b>	<b>2010 (restated)</b>
Commissions to reinsurance brokers	1 620	515
Commissions to insurance and reinsurance companies	6 940	7 097
	<b>8 560</b>	<b>7 612</b>

## *Notes to the financial statements*

### **(12) Administrative expense**

*In millions of BYR*

	<b>2011</b>	<b>2010 (restated)</b>
Salaries and social contribution expenses	3 438	3 577
Social taxes	1 065	1 090
Bank commission	507	956
Rent, utilities and maintenance	549	771
Professional services	817	472
Advertisement and public relations	208	174
Business trips	161	127
PPE depreciation	155	148
Insurance expenses	93	110
Charity	249	83
Low value items	117	79
Taxes other than income tax	475	68
Telecommunication services	45	46
Membership fees	41	42
Transportation	49	40
Education	8	4
Other	64	67
	<b>8 041</b>	<b>7 854</b>

### **(13) Other technical (expense) / income, net**

*In millions of BYR*

	<b>2011</b>	<b>2010 (restated)</b>
Reversal of impairment allowance for receivables from direct insurance operations (Note 23)	(159)	40
	<b>(159)</b>	<b>40</b>

### **(14) Investment income, net**

*In millions of BYR*

	<b>2011</b>	<b>2010 (restated)</b>
Interest income	35 502	26 294
Income on available for sale financial assets	1 960	1 499
Commercial bonds income, net	643	733
	<b>38 105</b>	<b>28 526</b>

### **(15) Other (expense) / income, net**

*In millions of BYR*

	<b>2011</b>	<b>2010 (restated)</b>
Foreign exchange differences	125 209	1 169
Impairment loss on available for sale financial assets	(461 432)	-
Taxes other than income tax	(249)	(65)
Penalties	(8)	-
Other	5	-
	<b>(336 475)</b>	<b>1 104</b>

### **(16) Income tax expense**

*In millions of BYR*

	<b>2011</b>	<b>2010 (restated)</b>
Current tax	9 581	10 163
Deferred tax expense/( benefit)	(4 365)	18 725
<b>Tax expense</b>	<b>5 216</b>	<b>28 888</b>

## Notes to the financial statements

<i>In millions of BYR</i>	<b>2011</b>	<b>2010 (restated)</b>
<b>Profit before tax</b>	<b>(276 190)</b>	<b>44 947</b>
Theoretical tax using the 24 % (26.28%) rate	(66 286)	11 812
Effect of change in income tax rate	(11 198)	(3 606)
Tax effect of permanent differences	-	5
Net non-deductible expenses / (income)	(1 350)	(325)
Effect of inflation	84 050	21 002
<b>Tax expense</b>	<b>5 216</b>	<b>28 888</b>

<i>In millions of BYR</i>	<b>2011</b>	<b>2010 (restated)</b>
<b>Deferred tax liability at the beginning of the year</b>	<b>(37 958)</b>	<b>(19 233)</b>
Deferred tax benefit / (expense) during the reporting period attributable to profit or loss	4 365	(18 725)
<b>Deferred tax liability at the end of the year</b>	<b>(33 593)</b>	<b>(37 958)</b>

Temporary differences as at 31 December 2011 and 31 December 2010(restated) are as follows:

<i>In millions of BYR</i>	<b>31 December 2011</b>	<b>31 December 2010 (restated)</b>
Technical reserves for unearned premium and unexpired risks	71 440	34 300
Reinsurance creditors	20 421	13 476
Outstanding claim technical reserve	5 731	5 086
Reinsurers' share in outstanding claim technical reserve	3 884	2 943
Direct insurance creditors	3 047	2 310
Other receivables	717	541
Other creditors	-	200
Provision for unused vacations	63	165
Property and equipment	58	-
Intangible assets	9	23
<b>Total tax deductible temporary differences</b>	<b>105 370</b>	<b>59 043</b>
Available for sale financial assets	(140 968)	(167 594)
Other creditors	(75 759)	-
Receivables from direct insurance activities	(57 797)	(39 121)
Reinsurers' share in unearned premiums technical reserve	(11 001)	(6 718)
Accrued income and deferred expenses	(5 486)	(3 128)
Receivables from reinsurance activities	(985)	(632)
Property and equipment	-	(8)
<b>Total taxable temporary differences</b>	<b>(291 996)</b>	<b>(217 202)</b>
<b>Net temporary differences</b>	<b>(186 626)</b>	<b>(158 159)</b>
<b>Deferred tax liabilities</b>	<b>(33 593)</b>	<b>(37 958)</b>

### (17) Loss on net monetary position due to inflation effect

<i>In millions of BYR</i>	<b>2011</b>	<b>2010 (restated)</b>
Effect of restatement of share capital	638 636	110 283
Effect of restatement of available for sale financial assets	(522 097)	(91 335)
Effect of restatement of property and equipment	(289)	(83)
Effect of restatement of deferred tax	19 770	1 753
Effect of restatement of insurance reserves	18 282	1 609
Effect of restatement of items of statement of comprehensive income	86 627	4 734
<b>Total loss on net monetary position</b>	<b>240 929</b>	<b>26 961</b>

## Notes to the financial statements

### (18) Reinsurance cession result

*In millions of BYR*

	2011	2010 (restated)
Reinsurance premiums	(78 615)	(55 365)
Reinsurers' share in change of unearned premiums reserve	6 417	(711)
Reinsurers' share of claims paid	1 444	3 239
Reinsurers' share in change of reserve for outstanding claims	1 223	(395)
Reinsurance commission income	2 728	1 502
<b>Total reinsurance cession result</b>	<b>(66 803)</b>	<b>(51 730)</b>

### (19) Property and equipment

<i>In millions of BYR</i>	Vehicles	Machinery and equipment	Office equipment and furniture	Total
<b>Cost</b>				
<b>Balance at 31 December 2009 (restated)</b>	<b>215</b>	<b>230</b>	<b>480</b>	<b>925</b>
Purchased	-	10	44	54
<b>Balance at 31 December 2010 (restated)</b>	<b>215</b>	<b>240</b>	<b>524</b>	<b>979</b>
Purchased	-	-	7	7
<b>Balance at 31 December 2011</b>	<b>215</b>	<b>240</b>	<b>531</b>	<b>986</b>
<b>Accumulated depreciation</b>				
<b>Balance at 31 December 2009 (restated)</b>	<b>(75)</b>	<b>(36)</b>	<b>(170)</b>	<b>(281)</b>
Depreciation for the year	(27)	(27)	(94)	(148)
<b>Balance at 31 December 2010 (restated)</b>	<b>(102)</b>	<b>(63)</b>	<b>(264)</b>	<b>(429)</b>
Depreciation for the year	(27)	(29)	(99)	(155)
<b>Balance at 31 December 2011</b>	<b>(129)</b>	<b>(92)</b>	<b>(363)</b>	<b>(584)</b>
<b>Balance at 31 December 2009(restated)</b>	<b>140</b>	<b>194</b>	<b>310</b>	<b>644</b>
<b>Balance at 31 December 2010(restated)</b>	<b>113</b>	<b>177</b>	<b>260</b>	<b>550</b>
<b>Balance at 31 December 2011</b>	<b>86</b>	<b>148</b>	<b>168</b>	<b>402</b>

### (20) Available-for-sale financial assets

Investments classified as available-for-sale financial assets are shares in other companies which are not quoted:

*In millions of BYR*

		31 December 2011		31 December 2010 (restated)	
	Sector	% owned	Carrying amount	% owned	Carrying amount
OJSC "Belagroprombank"	Bank	5,30%	486 839	6,99%	885 575
OJSC "Promagroleasing"	Leasing company	3,57%	54 134	3,57%	116 830
			<b>540 973</b>		<b>1 002 405</b>

OJSC "Belagroprombank" and OJSC "Promagroleasing" are not quoted companies and there is no available information for fair value measurement of their shares. Therefore, investments in OJSC "Belagroprombank" and OJSC "Promagroleasing" are recognised at cost based on the purchase price of the investments in December 2008 and September 2009, respectively. The Company doesn't plan to sell these assets within the next year.

In 2011 impairment loss on available for sale financial assets by BYR 461 432 million was recognized by the Company (Note 15).

## Notes to the financial statements

### (21) Held-to-maturity financial assets

<i>In millions of BYR</i>	31 December 2011			31 December 2010 (restated)		
	Amortized cost	Cost	Fair value	Amortized cost	Cost	Fair value
Commercial bonds issued by JSC “SB “Belarusbank”	2 199	2 000	1 927	4 299	4 174	4 239
	<b>2 199</b>	<b>2 000</b>	<b>1 927</b>	<b>4 299</b>	<b>4 174</b>	<b>4 239</b>

### (22) Deposits with banks

<i>In millions of BYR</i>	31 December 2011	31 December 2010 (restated)
Deposits with banks	191 210	178 944
	<b>191 210</b>	<b>178 944</b>

As of 31 December 2011 and 31 December 2010 all deposit amounts were placed in domestic financial institutions.

### (23) Receivables from direct insurance activities

<i>In millions of BYR</i>	31 December 2011	31 December 2010 (restated)
Due from policy holders	57 915	39 211
Impairment allowance for bad debtors	(118)	(90)
	<b>57 797</b>	<b>39 121</b>

*In millions of BYR*

#### Allowance as at 31 December 2009 (restated)

Reversal of the allowance

Effect of inflation

#### Allowance as at 31 December 2010 (restated)

Written off

Increase in allowance

Effect of inflation

#### Allowance as at 31 December 2011

#### Allowance for policy holders, gross

**140**

(40)

(10)

**90**

(45)

159

(86)

**118**

### (24) Other receivables and prepayments

<i>In millions of BYR</i>	31 December 2011	31 December 2010 (restated)
Prepayments of profit distribution to the shareholder	6 018	666
Prepayments for professional services	133	-
Advances paid for rent and utilities	33	67
Tax assets	22	23
Other	41	63
	<b>6 247</b>	<b>819</b>

### (25) Cash and cash equivalents

<i>In millions of BYR</i>	31 December 2011	31 December 2010 (restated)
Deposits under 3 months	18 746	17 852
Current accounts with credit institutions	5 568	2 310
<b>Cash and cash equivalents</b>	<b>24 314</b>	<b>20 162</b>

## Notes to the financial statements

As of 31 December 2011 and 31 December 2010 all deposit amounts were placed in domestic financial institutions.

### (26) Capital and reserves

As of 31 December 2011 the paid-in share capital of the Company was BYR 477,703 million (31 December 2010: BYR 469,739 million). As at 31 December 2011 the share capital was restated for the effect of inflation and increased by the amount of BYR 751,552 million (2010: BYR 746,261 million).

The sole shareholder of the Company is the Council of Ministers of the Republic of Belarus.

The shareholder has the full voting rights, rights to receive dividends when declared and for the Company's residual assets.

The dividends are represented by the profit distributions to the shareholder, for details refer to note 3.11.

In 2011 based on the decision of the owner share capital was increased from retained earnings by BYR 7,964 million (2010: BYR 8,847 million). Inflation effect on the increase of share capital in 2011 was BYR 5,291 million (2010: BYR 10,900 million). No change in relative shareholding occurred.

In accordance with the accounting standards of the Republic of Belarus the Company forms special purpose reserves within the retained earnings.

The Company's funds distributable to the owner are limited to the amount of distributable funds that are stated in the official statements of the Company, prepared according to Belarusian accounting rules.

### (27) Related parties

*In millions of BYR*

	2011		2010 (restated)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Salary and other personnel costs (Note 13)	353	3 438	387	3 577
- Key management personnel	353	-	387	-

### (28) Number of employees

	2011	2010
Average number of employees	49	46

### (29) Remaining maturities of insurance liabilities

	31 December 2011			31 December 2010 (restated)		
	Gross liabilities	Reinsurers' share	Net liabilities	Gross liabilities	Reinsurers' share	Net liabilities
Unearned premium and unexpired risks technical reserves	108 623	(23 474)	85 149	59 121	(17 057)	42 064
Outstanding claim technical reserves	40 864	(6 989)	33 875	31 898	(5 766)	26 132
<b>Total</b>	<b>149 487</b>	<b>(30 463)</b>	<b>119 024</b>	<b>91 019</b>	<b>(22 823)</b>	<b>68 196</b>
Less than one year	71 000	(21 928)	49 072	42 501	(16 560)	25 941
More than one year	78 487	(8 535)	69 952	48 518	(6 263)	42 255

## *Notes to the financial statements*

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### **(30) Operating leases**

Non-cancellable operating lease rentals are payable as follows:

<i>In millions of BYR</i>	<b>2011</b>	<b>2010 (restated)</b>
Less than one year	18	46
	<b>18</b>	<b>46</b>

### **(31) Uncertainties**

#### *Economy of the Republic of Belarus*

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

#### *Legislation*

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