

BELGAZPROMBANK

Financial Statements
For the Year Ended 31 December 2012

BELGAZPROMBANK

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BELGAZPROMBANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of Belarusian-Russian Belgazprombank Open Joint Stock ("Belgazprombank" or the "Bank") as at 31 December 2012, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements of the Bank for the year ended 31 December 2012 were approved on 1 March 2013 by the Chairman of the Management Board of Belgazprombank.

On behalf of the Management Board of the Bank:



Chairman of the Management Board
V.D. Babariko

1 March 2013
Minsk



Chief Accountant
T.M. Pivovar

1 March 2013
Minsk

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Belarusian-Russian Belgazprombank Joint Stock ("Belgazprombank" or the "Bank"), which comprise the balance sheet as at 31 December 2012, the corresponding income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Belgazprombank as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche


1 March 2013
Minsk

BELGAZPROMBANK

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (in millions of Belarusian Rubles)


| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|--|--------|-----------------------------------|-----------------------------------|
| Interest income | 4, 27 | 1,347,937 | 1,119,729 |
| Interest expense | 4, 27 | <u>(734,116)</u> | <u>(590,497)</u> |
| NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 613,821 | 529,232 |
| Provision for impairment losses on interest bearing assets | 5, 27 | <u>(70,419)</u> | <u>(138,505)</u> |
| Recoveries of assets previously written off | | <u>22,538</u> | <u>20,542</u> |
| NET INTEREST INCOME | | 565,940 | 411,269 |
| Net gain/(loss) on foreign exchange operations | 6 | 107,626 | (1,549,215) |
| Net gain on operations with financial instruments at fair value through profit or loss | 7 | 210,461 | 1,833,787 |
| Fee and commission income | 8, 27 | 218,438 | 226,593 |
| Fee and commission expense | 8 | <u>(40,607)</u> | <u>(83,950)</u> |
| Net gain on operations with precious metals | | 5,011 | 47,352 |
| Recovery of provision/(provision) for losses on other transactions | 5 | 6,227 | (22,938) |
| Other income | 9 | <u>18,195</u> | <u>15,166</u> |
| NET NON-INTEREST INCOME | | <u>525,351</u> | <u>466,795</u> |
| OPERATING INCOME | | 1,091,291 | 878,064 |
| OPERATING EXPENSES | 10, 27 | <u>(405,234)</u> | <u>(340,947)</u> |
| PROFIT BEFORE INCOME TAX AND LOSS ON NET MONETARY POSITION | | 686,057 | 537,117 |
| Income tax expense | 11 | <u>(88,410)</u> | <u>(80,506)</u> |
| PROFIT BEFORE LOSS ON NET MONETARY POSITION | | 597,647 | 456,611 |
| Loss on net monetary position due to inflation | | <u>(316,895)</u> | <u>(812,988)</u> |
| NET PROFIT/(LOSS) | | <u>280,752</u> | <u>(356,377)</u> |

On behalf of the Management Board of the Bank:



Chairman of the Management Board
V.D. Babariko

1 March 2013
Minsk



Chief Accountant
T.M. Pivovar

1 March 2013
Minsk


The notes on pages 10-55 form an integral part of these financial statements.

BELGAZPROMBANK

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012 (in millions of Belarusian Rubles)

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|--|-----------------------------------|-----------------------------------|
| NET PROFIT/(LOSS) | <u>280,752</u> | <u>(356,377)</u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Transfer of comprehensive loss/(income) to profit or loss upon disposal of investments available for sale | 20 | (577) |
| Change in fair value of investments available for sale | <u>11,417</u> | <u>(2,296)</u> |
| TOTAL OTHER COMPREHENSIVE INCOME/(LOSS) | <u>11,437</u> | <u>(2,873)</u> |
| TOTAL COMPREHENSIVE INCOME/(LOSS) | <u>292,189</u> | <u>(359,250)</u> |

On behalf of the Management Board of the Bank:



Chairman of the Management Board
V.D. Babariko

1 March 2013
Minsk



Chief Accountant
T.M. Pivovar

1 March 2013
Minsk

The notes on pages 10-55 form an integral part of these financial statements.

BELGAZPROMBANK

BALANCE SHEET AS AT 31 DECEMBER 2012 (in millions of Belarusian Rubles)

| | Notes | 31 December 2012 | 31 December 2011 |
|---|--------|---------------------|---------------------|
| ASSETS: | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 12 | 1,303,968 | 806,481 |
| Precious metals | | 14,018 | 62,326 |
| Securities at fair value through profit or loss | 13, 27 | 481,281 | 714,369 |
| Derivative financial instruments, assets | 14 | 1,259,007 | 1,356,716 |
| Due from banks and other financial institutions | 15, 27 | 1,170,608 | 1,263,347 |
| Loans to customers | 16, 27 | 6,167,090 | 4,936,279 |
| Investments available for sale | 17 | 132,470 | 22,453 |
| Non-current assets held for sale | | 34,765 | 1,864 |
| Property, equipment and intangible assets | 18 | 323,430 | 298,364 |
| Other assets | 19 | 108,839 | 93,799 |
| TOTAL ASSETS | | 10,995,476 | 9,555,998 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES: | | | |
| Derivative financial instruments, liabilities | 14 | 3,687 | 256 |
| Loans from the National Bank of the Republic of Belarus | | - | 2,407 |
| Due to banks and other financial institutions | 20, 27 | 2,428,154 | 2,784,152 |
| Customer accounts | 21, 27 | 5,707,378 | 4,676,596 |
| Debt securities issued | 22 | 356,151 | 337,143 |
| Current income tax liabilities | | 15,600 | 5,860 |
| Deferred income tax liabilities | 11 | 74,228 | 38,869 |
| Other liabilities | 23 | 57,824 | 61,003 |
| Subordinated debts | 24, 27 | - | 457,266 |
| Total liabilities | | 8,643,022 | 8,363,552 |
| EQUITY: | | | |
| Share capital | 25 | 2,310,695 | 1,381,953 |
| Investments available for sale revaluation reserve | | 8,564 | (2,873) |
| Retained earnings/ (accumulated deficit) | | 33,195 | (186,634) |
| Total equity | | 2,352,454 | 1,192,446 |
| TOTAL LIABILITIES AND EQUITY | | 10,995,476 | 9,555,998 |

On behalf of the Management Board of the Bank:



Chairman of the Management Board
V.D. Babariko

1 March 2013
Minsk



Chief Accountant
T.M. Pivovarov

1 March 2013
Minsk


The notes on pages 10-55 form an integral part of these financial statements.

BELGAZPROMBANK

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012 (in millions of Belarusian Rubles)


| | Notes | Share capital | Investments available for sale revaluation reserve | (Accumulated deficit)/ retained earnings | Total equity |
|---|-------|------------------|--|--|------------------|
| 31 December 2010 | | 1,381,953 | - | 235,677 | 1,617,630 |
| Total comprehensive loss for the year | | - | (2,873) | (356,377) | (359,250) |
| Dividends declared | 25 | - | - | (65,934) | (65,934) |
| 31 December 2011 | | 1,381,953 | (2,873) | (186,634) | 1,192,446 |
| Issue of ordinary shares | | 928,742 | - | - | 928,742 |
| Total comprehensive income for the year | | - | 11,437 | 280,752 | 292,189 |
| Dividends declared | 25 | - | - | (60,923) | (60,923) |
| 31 December 2012 | | <u>2,310,695</u> | <u>8,564</u> | <u>33,195</u> | <u>2,352,454</u> |

On behalf of the Management Board of the Bank:



Chairman of the Management Board
V.D. Babariko

1 March 2013
Minsk



Chief Accountant
T.M. Pivovar

1 March 2013
Minsk

The notes on pages 10-55 form an integral part of these financial statements.

BELGAZPROMBANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012 (in millions of Belarusian Rubles)

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|-------|-----------------------------------|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Profit before income tax and loss on net monetary position | | 686,057 | 537,117 |
| Adjustments for: | | | |
| Provision for impairment losses on interest bearing assets | | 70,419 | 138,505 |
| Other provisions | | (6,227) | 22,938 |
| Net change in fair value of derivative financial instruments | | (154,149) | (1,831,878) |
| Net change in fair value of precious metals | | 141 | (45,010) |
| Net change in fair value of securities at fair value through profit or loss | | (68,608) | 21,018 |
| Depreciation and amortization | | 31,182 | 25,086 |
| (Gain)/loss on disposal of property, equipment, non-current assets held for sale | | (9,901) | 88 |
| Accrual of compensation payable to employees | | 7,399 | 5,896 |
| Net change in interest accruals | | (55,826) | (109,684) |
| Net change in accruals of commission income and penalties | | (1,582) | (9,156) |
| Loss/(gain) on sale of investments available for sale | | 20 | (577) |
| Foreign exchange translation differences, net | | (50,678) | 1,771,316 |
| | | 448,247 | 525,659 |
| Cash flows from operating activities before changes in operating assets and liabilities | | | |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Minimum reserve deposit with the National Bank of the Republic of Belarus | | (39,534) | (40,749) |
| Due from banks and other financial institutions | | (332,193) | (59,921) |
| Precious metals | | 39,987 | 209,015 |
| Securities at fair value through profit or loss | | 198,292 | 76,150 |
| Loans to customers | | (2,218,536) | (1,540,414) |
| Other assets | | (9,089) | (31,824) |
| Increase/(decrease) in operating liabilities: | | | |
| Loans from the National Bank of the Republic of Belarus | | (2,075) | (13,977) |
| Due to banks and other financial institutions | | 268,807 | 503,539 |
| Customer accounts | | 1,880,493 | 1,907,344 |
| Other liabilities | | (2,799) | (16,589) |
| | | 231,600 | 1,518,233 |
| Cash inflow from operating activities before taxation | | | |
| Income tax paid | | (38,982) | (70,348) |
| | | 192,618 | 1,447,885 |
| Net cash inflow from operating activities | | | |

The notes on pages 10-55 form an integral part of these financial statements.

BELGAZPROMBANK

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2012 (in millions of Belarusian Rubles)

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|-------|-----------------------------------|--------------------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property, equipment and intangible assets | | (81,422) | (90,831) |
| Proceeds on sale of property, equipment and intangible assets | | 19,991 | 1,593 |
| Proceeds on sale of non-current assets held for sale (Purchase)/proceeds on disposal of investments available for sale, net | | 1,188 | 26,103 |
| | | <u>(95,487)</u> | <u>145,589</u> |
| Net cash (outflow)/inflow from investing activities | | <u>(155,730)</u> | <u>82,454</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| (Repayment of)/proceeds from subordinated debt | | (420,749) | 407,919 |
| Proceeds from issue of ordinary shares | | 928,742 | - |
| Raising finance by issuing debt securities, net | | 76,201 | (528,131) |
| Repayment of loans received from international financial institutions | | (361,331) | (160,599) |
| Proceeds from loans received from international financial institutions | | 225,248 | 316,154 |
| Dividends paid | | (60,923) | (65,934) |
| | | <u>387,188</u> | <u>(30,591)</u> |
| Net cash inflow/(outflow) from financing activities | | <u>387,188</u> | <u>(30,591)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 424,076 | 1,499,748 |
| Effect of changes in foreign exchange rates on cash and cash equivalents | | 59,975 | 580,993 |
| Effect of inflation changes on cash and cash equivalents | | (412,262) | (797,641) |
| CASH AND CASH EQUIVALENTS, beginning of the year | 12 | <u>2,015,856</u> | <u>732,756</u> |
| CASH AND CASH EQUIVALENTS, end of the year | 12 | <u><u>2,087,645</u></u> | <u><u>2,015,856</u></u> |

Interest paid and received by the Bank during the year ended 31 December 2012 amounted to BYR 740,804 million and BYR 1,298,799 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2011 amounted to BYR 556,183 million and BYR 975,731 million, respectively.

During the years ended 31 December 2012 and 2011 the Bank received real estate (administrative and other non-residential premises) through repossession of collateral pledged under the default loans in the amount of BYR 40,798 million and BYR 2,195 million, respectively, which represents non-cash transactions.

On behalf of the Management Board of the Bank:



Chairman of the Management Board
V.D. Babariko

1 March 2013
Minsk



Chief Accountant
T.M. Pivovar

1 March 2013
Minsk

The notes on pages 10-55 form an integral part of these financial statements.

BELGAZPROMBANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012 (in millions of Belarusian Rubles unless otherwise stated)

1. ORGANISATION

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

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

The registered office of the Bank is located at 220121, Republic of Belarus, Minsk, 60/2 Pritytskogo str.

As at 31 December 2011 the Bank had 8 regional branches in the Republic of Belarus which were transformed into city and regional offices in 2012.

As at 31 December 2012 and 2011 the structure of the Bank's share capital was as follows:

| Shareholders | 31 December 2012 | 31 December 2011 |
|---|---------------------|---------------------|
| JSC "Gazprom" (the Russian Federation) | 49.66 | 49.02 |
| Gazprombank (Open Joint Stock Company) (the Russian Federation) | 49.66 | 49.02 |
| JSC "Beltransgaz" (the Republic of Belarus) | 0.50 | 1.43 |
| State Property Committee of the Republic of Belarus | 0.18 | 0.53 |
| Other | less than 0.01 | less than 0.01 |
| Total | 100.00 | 100.00 |

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

These financial statements were authorized for issue by the Chairman of the Management Board of the Bank on 1 March 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Other basis of presentation criteria

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

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

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

The Bank presents its balance sheet accounts broadly in order of liquidity. The analysis regarding recovery of financial assets or repayment of liabilities within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 30.

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

The principal accounting policies are set out below.

Hyperinflationary accounting

From 1 January 2011 the economy of the Republic of Belarus is considered as hyperinflationary based on the criteria specified in IAS 29 *Financial Reporting in Hyperinflationary Economies* (hereinafter – “IAS 29”).

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

The restatement was made using the Consumer Price Index (“CPI”), published by the National Statistical Committee. The change of rates of the Consumer Price Index for the five year period ended 31 December 2012 was as follows:

| Year | % change |
|-------------|-----------------|
| 2008 | 13.3% |
| 2009 | 10.1% |
| 2010 | 9.9% |
| 2011 | 108.7% |
| 2012 | 21.8% |

Monetary assets and liabilities were not restated because they are already expressed in terms of the monetary unit current at 31 December 2012. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at 31 December 2012) and components of equity were restated by applying the relevant index. The effect of inflation on Bank’s net monetary position is included in the income statement as gain or loss on net monetary position.

Tangible and intangible assets, share capital were restated using indices, calculated from the date of purchase or contribution. Opening accumulated deficit was restated using the price index for the year 2012.

Amounts included in the income statement have been indexed by the change in the CPI for the year 2012 based on the assumption, that income and expenses have accrued evenly over the month.

Recognition of interest income and expense

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

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

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

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

Recognition of income on repurchase and reverse repurchase agreements

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

Recognition of revenue – other

Recognition of fee and commission income

Loan servicing fees together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. Other commissions are recognized when services are provided.

Recognition of dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Recognition of rental income

The Bank's policy for recognition of income as a lessor is set out in the "Leases" section of this footnote.

Financial instruments

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

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

Financial assets

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank with original maturity within 90 days, due from banks with original maturity within 90 days, which may be converted to cash within a short period of time, except for guarantee deposits and other restricted balances. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank is not included as a cash equivalent due to restrictions on its availability.

Financial assets at fair value through profit of loss

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

A financial asset is classified as held for trading if:

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

Financial assets at fair value through profit of loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 28.

Derivative financial instruments

The Bank uses the following derivative financial instruments: foreign currency forwards, forward securities contracts with open delivery date and exchange of deposits in different currencies with the National Bank (swap). These instruments are used by the Bank to manage its exposure to foreign exchange rate and price risks.

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

Available-for-sale financial assets

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

Unlisted shares and bonds classified as available-for-sale that are not traded in an active market are stated at fair value, as far as the management of the Bank considers that their fair value can be reliably measured. Fair value is determined in the manner described in Note 28. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments available for sale revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest rate method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gains or losses previously accumulated in the investments revaluation reserve are reclassified to profit or loss.

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

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

Loans and receivables

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

Repurchase and reverse repurchase agreements

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

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

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

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

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

Impairment of financial assets

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

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

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

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as default or delinquency in interest or principal payments;
- Default or delinquency in interest or principal payments;
- It is becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- Disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

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

In respect of equity securities available for sale, impairment losses previously recognized in profit or loss are not reversed. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of debt securities available for sale, impairment losses are subsequently reversed through profit or loss, if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

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

Write-off of loans

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

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On write-off of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

Financial guarantee contracts

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

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

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

Leases

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

The Bank as lessor

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

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

The Bank as lessee

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

Precious metals

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

Fixed Assets

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

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|-----------------------------------|-----------------------------------|
| Buildings and premises | 1% | 1% |
| Computer equipment, furniture and other equipment | 10-20% | 10-20% |
| Motor vehicles | 14% | 14% |

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

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

Intangible assets

Intangible assets acquired separately

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|-------------------|--|--|
| Intangible assets | 10-20% | 10-20% |

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

Impairment of tangible and intangible asset

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

Taxation

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

Current income tax expense

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

Deferred income tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

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

Operating taxes

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

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Commitments, contingent assets and liabilities

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

Functional currency

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

Foreign currency

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

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

| | 31 December 2012 | 31 December 2011 |
|---------|-----------------------------|-----------------------------|
| USD/BYR | 8,570.00 | 8,350.00 |
| EUR/BYR | 11,340.00 | 10,800.00 |
| RUB/BYR | 282.00 | 261.00 |

Collateral pledged

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

Non-current assets held for sale

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

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

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

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

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

Key sources of estimation uncertainty

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

Impairment of loans and receivables

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

The Bank uses professional judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses professional estimates to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

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

Measurement of derivative financial instruments fair value

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

Derivative financial instruments represent forward contracts with securities with open delivery date are measured at fair value which is calculated as net result between fair value of the receivable and liability.

Fair value of the receivable/liability on receipt/delivery of a security is measured as fair value of the security determined by the best available bid price and low ask that are identified by the stock exchange (bidding process organizer) or leading banks (market participants). Fair value of the receivable/liability on cash receipt/delivery is the amount of the cash flow calculated based on the terms and conditions of the contract.

Useful economic lives of property, plant and equipment

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

Adoption of new and revised IFRS Standards and Interpretations

The following amendments to IFRS came into force within the current accounting period:

- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*;
- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*;
- Amendments to IAS 1 *Presentation of Financial Statements*’
- Amendments to IAS 12 *Income Taxes – Deferred tax: Recovery of Underlying Assets*.

Adoption of the aforesaid amendments did not affect the financial indicators presented in these financial statements.

New and revised IFRS in issue but not yet effective

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

| Standards and Interpretations | Effective for annual period beginning on or after |
|--|--|
| IFRS 9 <i>Financial Instruments</i> | 1 January 2015 |
| IFRS 10 <i>Consolidated Financial Statements</i> | 1 January 2013 |
| IFRS 11 <i>Joint Arrangements</i> | 1 January 2013 |
| IFRS 12 <i>Disclosure of Interests in Other Entities</i> | 1 January 2013 |
| IFRS 13 <i>Fair Value Measurement</i> | 1 January 2013 |
| Amendments to IFRS 7 <i>Disclosures – Disclosures-Offsetting Financial Assets and Financial Liabilities</i> | 1 January 2013 |
| Amendments to IFRS 9 <i>Financial Instruments</i> and IFRS 7 <i>Financial Instruments: Disclosures – IFRS 9: Mandatory Effective Date and Transition Disclosures</i> | 1 January 2015 |
| Amendments to IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 11 <i>Joint Arrangements</i> and IFRS 12 <i>Disclosure of Interest in Other Entities – Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance</i> | 1 January 2013 |
| IAS 19 <i>Employee Benefits</i> (revised in 2011); | 1 January 2013 |
| IAS 27 <i>Separate Financial Statements</i> (revised 2011) | 1 January 2013 |
| IAS 28 <i>Investments in Associates</i> (revised 2011) | 1 January 2013 |
| Amendments to IAS 32 <i>Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> | 1 January 2014 |
| Amendments to IAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Asset forming the basis of the deferred tax</i> | 1 January 2013 |

Standards and Interpretations

Effective for annual period beginning on or after

Amendments to IFRS *Annual Improvements to IFRSs* (for 2009-2011)
Amendments to IAS 1 *Presentation of Financial Statements – Presentation of items of other comprehensive income*

1 January 2013

1 July 2012

IFRS 9 *Financial Instruments* was issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. Key requirements of IFRS 9:

- Upon initial recognition all recognised financial assets are measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 *Financial Instruments*, entities may make an irrevocable choice to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- For financial assets that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial asset that is attributable to changes in the credit risk of that asset is recognised in other comprehensive income, unless the recognition of the effects of changes in the asset's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial asset's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in fair value of a financial asset designated as at fair value through profit or loss was recognised in profit and loss.

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 *Fair Value Measurement* are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 *Fair Value Measurement* to cover all assets and liabilities within its scope.

Amendments to IAS 32 *Financial Instruments: Presentation* clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. It clarifies: the meaning of the phrase “currently has a legally enforceable right to set-off” and “simultaneous realization and settlement”.

Amendments to IFRS 7 *Financial Instruments: Disclosures* require entities to disclose information about rights to offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. It requires retrospective disclosure of information for all comparative periods.

Amendments to IAS 19 *Employee Benefits* change the accounting for defined benefit plans and termination benefits and a definition of short-term benefits.

Annual Improvements to IFRSs (for 2009-2011) include the following amendments to IFRSs:

Amendments to IAS 32 *Financial Instruments: Presentation*. Amendments to IAS 32 *Financial Instruments: Presentation* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*.

The management of the Bank does not expect that the adoption of the new standards and the aforesaid amendments will have a material impact on the Bank's financial statements. For the remaining amendments the Bank's management is still evaluating the impact of their adoption on financial statements.

4. NET INTEREST INCOME

Net interest income comprises:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|--|-----------------------------------|-----------------------------------|
| Interest income: | | |
| Interest income on financial assets recorded at amortized cost: | | |
| Interest income on assets subject to impairment | 1,114,294 | 969,720 |
| Interest income on assets that have not been impaired | 107,357 | 100,185 |
| Interest income on financial assets at fair value | <u>126,286</u> | <u>49,824</u> |
| Total interest income | <u>1,347,937</u> | <u>1,119,729</u> |
| Interest income on financial assets recorded at amortized cost comprises: | | |
| Interest on loans to customers | 1,114,294 | 969,720 |
| Interest on balances due from banks and other financial institutions | 104,687 | 93,932 |
| Other interest income | <u>2,670</u> | <u>6,253</u> |
| Total interest income on financial assets recorded at amortized cost | <u>1,221,651</u> | <u>1,069,905</u> |
| Interest income on financial assets at fair value comprises: | | |
| Interest on investments available for sale | 83,665 | 16,800 |
| Interest on securities at fair value through profit or loss | <u>42,621</u> | <u>33,024</u> |
| Total interest income on financial assets at fair value | <u>126,286</u> | <u>49,824</u> |
| Interest expense comprises: | | |
| Interest on financial liabilities recorded at amortized cost | <u>734,116</u> | <u>590,497</u> |
| Total interest expense | <u>734,116</u> | <u>590,497</u> |
| Interest expense on financial liabilities recorded at amortized cost comprises: | | |
| Interest on customer accounts | 571,813 | 351,830 |
| Interest on deposits from banks and other financial institutions, on loans from the National Bank and subordinated debts | 135,354 | 172,594 |
| Interest on debt securities issued | 26,887 | 66,000 |
| Other interest expense | <u>62</u> | <u>73</u> |
| Total interest expense on financial liabilities recorded at amortized cost | <u>734,116</u> | <u>590,497</u> |
| Net interest income before provision for impairment losses on interest bearing assets | <u>613,821</u> | <u>529,232</u> |

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

| | Loans to customers |
|---------------------|-----------------------|
| 31 December 2010 | 133,147 |
| Provisions | 138,505 |
| Write-off of assets | (13,592) |
| Inflation effect | <u>(93,980)</u> |
| 31 December 2011 | 164,080 |
| Provisions | 70,419 |
| Write-off of assets | (15,610) |
| Inflation effect | <u>(31,756)</u> |
| 31 December 2012 | <u>187,133</u> |

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

| | Other assets | Guarantees and other contingent liabilities | Total |
|-------------------------------------|----------------|---|-----------------|
| 31 December 2010 | 3,317 | 7,302 | 10,619 |
| (Recovery of provision)/provision | (128) | 23,066 | 22,938 |
| Inflation effect | <u>(1,727)</u> | <u>(10,554)</u> | <u>(12,281)</u> |
| 31 December 2011 | 1,462 | 19,814 | 21,276 |
| Provisions/(recovery of provisions) | 650 | (6,877) | (6,227) |
| Inflation effect | <u>(318)</u> | <u>(2,829)</u> | <u>(3,147)</u> |
| 31 December 2012 | <u>1,794</u> | <u>10,108</u> | <u>11,902</u> |

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

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

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|-----------------------------------|-----------------------------------|
| Dealing, net | 56,948 | 222,101 |
| Foreign exchange translation differences, net | <u>50,678</u> | <u>(1,771,316)</u> |
| Total net gain/(loss) on foreign exchange operations | <u>107,626</u> | <u>(1,549,215)</u> |

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

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|-----------------------------------|-----------------------------------|
| Net gain on derivative financial instruments | 142,727 | 1,863,771 |
| Net gain/(loss) on securities at fair value through profit or loss | <u>67,734</u> | <u>(29,984)</u> |
| Total net gain on operations with financial instruments at fair value through profit or loss | <u>210,461</u> | <u>1,833,787</u> |

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|-----------------------------------|-----------------------------------|
| Fee and commission income | | |
| Settlement and cash operations with clients | 106,312 | 98,150 |
| Foreign exchange operations | 51,504 | 67,011 |
| Plastic cards operations | 45,965 | 51,161 |
| Documentary operations | 14,122 | 9,621 |
| Settlements with banks | 91 | 80 |
| Other | 444 | 570 |
| | <u>218,438</u> | <u>226,593</u> |
| Total fee and commission income | 218,438 | 226,593 |
| Fee and commission expense | | |
| Plastic cards operations | 18,933 | 20,495 |
| Legal support of banking operations | 4,834 | 28 |
| Interbank accounts maintenance | 4,788 | 4,245 |
| Foreign currency operations and cash operations | 4,390 | 51,863 |
| Documentary operations | 3,223 | 2,627 |
| Payments accepted for the bank | 2,477 | 1,835 |
| Operations with securities | 1,873 | 2,504 |
| Other | 89 | 353 |
| | <u>40,607</u> | <u>83,950</u> |
| Total fee and commission expense | 40,607 | 83,950 |

9. OTHER INCOME

Other income comprises:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|--|-----------------------------------|-----------------------------------|
| Proceeds from sale of property, plant and equipment and non-current assets held for sale | 9,901 | - |
| Fines and penalties | 5,301 | 10,528 |
| Other | 2,993 | 4,638 |
| | <u>18,195</u> | <u>15,166</u> |
| Total other income | 18,195 | 15,166 |

10. OPERATING EXPENSES

Operating expenses comprise:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|--|-----------------------------------|-----------------------------------|
| Staff costs | 157,567 | 146,058 |
| Social security contributions | 40,037 | 37,939 |
| Depreciation and amortisation | 31,182 | 25,086 |
| Contributions to individuals' deposits protection fund | 26,373 | 15,148 |
| Expenses for services of automated interbank and international settlement system | 19,461 | 17,826 |
| Rent and property and equipment maintenance | 17,816 | 13,525 |
| Stationery and office expenses | 13,702 | 18,069 |
| Insurance expenses | 12,729 | 9,689 |
| Remuneration to the members of the Board of Directors and Revision Committee | 11,169 | 6,090 |
| Advertising costs | 10,819 | 5,300 |
| Charity and sponsorship expenses | 8,745 | 5,291 |
| Expenses on maintenance of banking software | 6,995 | 7,238 |
| Telecommunication expenses | 5,341 | 4,522 |
| Security expenses | 5,114 | 4,108 |
| Taxes, other than income tax | 4,752 | 4,546 |
| Information and consulting services | 3,635 | 3,668 |
| Vehicles maintenance and fuel expenses | 3,523 | 3,672 |
| Other expense | 26,274 | 13,172 |
| Total operating expenses | 405,234 | 340,947 |

11. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2012 and 2011 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax and accounting bases' differences for certain assets and liabilities.

The Bank provides for current income tax based on the statutory tax accounts maintained in accordance with the Belarusian statutory tax regulations. During the year ended 31 December 2012 the tax rate for the Bank comprised 18%; during the year ended 31 December 2011 the tax rate for the Bank comprised 24%.

Tax effect of temporary differences as at 31 December 2012 and 2011 comprise:

| | 31 December 2012 | 31 December 2011 |
|---|-----------------------------|-----------------------------|
| Other liabilities | 1,471 | 2,580 |
| Precious metals | 171 | (5,542) |
| Debt securities issued | 79 | 1,319 |
| Due to banks and other financial institutions | (739) | (527) |
| Due from banks and other financial institutions | (848) | (877) |
| Property, equipment and intangible assets | (1,590) | (6,752) |
| Other assets | (2,042) | (1,879) |
| Investments available for sale | (2,880) | (791) |
| Provision for guarantees and letters of credit | (5,943) | (1,427) |
| Derivative financial instruments | (10,110) | (795) |
| Loans to customers | (51,797) | (24,178) |
| | <u>(74,228)</u> | <u>(38,869)</u> |
| Net deferred tax liabilities | (74,228) | (38,869) |

The effective tax rate reconciliation is as follows for the years ended 31 December 2012 and 2011:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|--|--|--|
| Profit/(Loss) before tax | <u>369,162</u> | <u>(275,871)</u> |
| | 18% | 24% |
| Tax at the statutory tax rate | 66,449 | (66,209) |
| Tax effect of non-taxable expenses | 7,261 | 11,209 |
| Tax effect of non-taxable income and other deductions | (29,239) | (29,857) |
| Tax effect of change in tax base of property and equipment due to revaluation performed for tax purposes | (12,134) | (25,253) |
| Tax effect of change in income tax rate | - | (12,957) |
| Tax effect of the inflation of equity components on profit | 54,802 | 195,802 |
| Tax effect of other permanent differences | 1,271 | 7,771 |
| | <u>88,410</u> | <u>80,506</u> |
| Income tax expense | 88,410 | 80,506 |
| Current income tax expense | 53,051 | 55,382 |
| Deferred tax expense recognized in income statement | 35,359 | 25,124 |
| | <u>88,410</u> | <u>80,506</u> |
| Income tax expense | 88,410 | 80,506 |
| | Year ended 31 December 2012 | Year ended 31 December 2011 |
| Deferred tax liabilities | | |
| As at 1 January – Deferred income tax liabilities | 38,869 | 13,745 |
| Change in deferred income tax recognized in profit or loss | 35,359 | 25,124 |
| | <u>74,228</u> | <u>38,869</u> |
| As at 31 December – Deferred income tax liabilities | 74,228 | 38,869 |

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

| | 31 December 2012 | 31 December 2011 |
|--|-------------------------|-----------------------|
| Correspondent accounts with the National Bank of the Republic of Belarus | 918,152 | 415,082 |
| Cash | 318,989 | 353,686 |
| Balance on reserve deposit account with the National Bank of the Republic of Belarus | <u>66,827</u> | <u>37,713</u> |
| Total cash and balances with the National Bank | <u>1,303,968</u> | <u>806,481</u> |

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

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

| | 31 December 2012 | 31 December 2011 |
|---|-------------------------|-------------------------|
| Cash and balances with the National Bank of the Republic of Belarus | 1,303,968 | 806,481 |
| Due from banks and other financial institutions with original maturity within 90 days | <u>850,504</u> | <u>1,247,088</u> |
| Less minimum reserve deposits with the National Bank of the Republic of Belarus | <u>(66,827)</u> | <u>(37,713)</u> |
| Total cash and cash equivalents | <u>2,087,645</u> | <u>2,015,856</u> |

13. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

| | Interest to nominal | 31 December 2012 | 31 December 2011 |
|--|------------------------|-----------------------|-----------------------|
| Bonds: | | | |
| Eurobonds of the Republic of Belarus | 8.75%-8.95% | 386,417 | 218,166 |
| Eurobonds issued by Belarusian banks | 9.95% | 94,864 | 89,008 |
| Eurobonds of Germany | 1.0%-1.5% | - | 402,411 |
| Shares: | | | |
| Shares of Russian companies | | - | 3,124 |
| Shares of Russian banks | | <u>-</u> | <u>1,660</u> |
| Total securities at fair value through profit or loss | | <u>481,281</u> | <u>714,369</u> |

14. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2012 derivative financial instruments comprise:

| | Nominal amount (in units of purchased currency) | Fair value | |
|---|--|-----------------------|-----------------------|
| | | Asset | Liability |
| Foreign currency forward contracts: | | | |
| USD/BYR | USD 109,200,000 | 603,673 | (554) |
| EUR/BYR | EUR 12,000,000 | 89,533 | - |
| RUB/USD | RUB 247,764,000 | 1,197 | - |
| EUR/USD | EUR 6,300,000 | 93 | (32) |
| USD/RUB | USD 12,000,000 | 77 | - |
| USD/EUR | USD 125,353,680 | 6 | (3,071) |
| AUD/USD | AUD 2,000,000 | 5 | (1) |
| NZD/USD | NZD 2,000,000 | - | (8) |
| Total foreign currency forward contracts | | <u>694,584</u> | <u>(3,666)</u> |

| | Nominal amount (in units of placed currency) | Fair value | |
|--|---|-----------------------|-----------------|
| | | Asset | Liability |
| Foreign currency swap contracts: | | | |
| EUR/BYR | EUR 45,965,183 | 337,531 | - |
| USD/BYR | USD 40,356,069 | 226,158 | - |
| Total foreign currency swap contracts | | <u>563,689</u> | <u>-</u> |

| | Contract cost of purchased securities | Fair value | |
|---|--|-------------------|--------------------|
| | | Asset | Liability |
| Forward contracts for purchase of securities with open delivery date: | | | |
| Eurobonds issued by Russian bank | USD 6,033,750 | 661 | - |
| Eurobonds of Ukraine | USD 8,200,000 | 73 | (21) |
| Total forward contracts for purchase of securities with open delivery date | | <u>734</u> | <u>(21)</u> |

As at 31 December 2012 derivative financial instruments included forward and swap contracts with the National Bank of the Republic of Belarus with the fair value of BYR 1,256,895 million (assets).

As at 31 December 2011 derivative financial instruments comprise:

| | Nominal amount (in units of purchased currency) | Fair value | |
|---|--|-----------------------|---------------------|
| | | Asset | Liability |
| Foreign currency forward contracts: | | | |
| USD/BYR | USD 117,000,000 | 707,338 | - |
| EUR/BYR | EUR 12,000,000 | 87,125 | - |
| BYR/EUR | BYR 241,144,730,000 | 3,362 | - |
| EUR/USD | EUR 12,000,000 | 546 | (27) |
| USD/EUR | USD 43,333,370 | 237 | (171) |
| RUB/USD | RUB 224,578,200 | 78 | - |
| USD/RUB | USD 1,000,000 | - | (58) |
| Total foreign currency forward contracts | | <u>798,686</u> | <u>(256)</u> |

| | Nominal amount (in units of placed currency) | Fair value | |
|--|--|----------------|-----------|
| | | Asset | Liability |
| Foreign currency swap contracts: | | | |
| EUR/BYR | EUR 45,965,183 | 321,377 | - |
| USD/BYR | USD 40,356,069 | 236,653 | - |
| Total foreign currency swap contracts | | 558,030 | - |

As at 31 December 2011 derivative financial instruments included forward and swap contracts with the National Bank of the Republic of Belarus with the fair value of BYR 1,352,493 million (assets).

15. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

| | 31 December 2012 | 31 December 2011 |
|--|------------------|------------------|
| Time deposits | 593,932 | 103,747 |
| Correspondent and demand accounts | 535,244 | 792,688 |
| Settlements with Belarusian Currency Stock Exchange | 41,432 | - |
| Loans under reverse repurchase agreements | - | 366,912 |
| Total due from banks and other financial institutions | 1,170,608 | 1,263,347 |

As at 31 December 2011 the Bank had balances due from four banks in the amount of BYR 892,009 million, each individually exceeding 10% of the Bank's equity.

As at 31 December 2011 government long-term bonds at fair value of BYR 365,083 million were pledged as collateral under reversed repurchase agreements with a Belarusian bank with maturity up to 30 days from the reporting date.

16. LOANS TO CUSTOMERS

Loans to customers comprise:

| | 31 December 2012 | 31 December 2011 |
|--------------------------------------|------------------|------------------|
| Originated loans | 6,261,072 | 5,037,380 |
| Net investment in finance lease | 93,151 | 62,979 |
| | 6,354,223 | 5,100,359 |
| Less allowance for impairment losses | (187,133) | (164,080) |
| Total loans to customers | 6,167,090 | 4,936,279 |

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

Maximum exposure to credit risk on loans to customers amounts to net value of loans reported in the statement of financial position. The effect of collateral on maximum exposure to credit risk of loans to customers as at 31 December 2012 and 2011 comprised BYR 6,167,090 million and BYR 4,936,279 million, representing the least of the following two amounts: fair value of collateral and value of loans reported in the statement of financial position.

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

| | 31 December 2012 | 31 December 2011 |
|--|-----------------------------|-----------------------------|
| Loans collateralized by real estate and rights thereon | 1,833,430 | 1,331,193 |
| Loans collateralized by liens over receivables | 945,165 | 989,470 |
| Loans collateralized by guarantees of individuals | 732,420 | 443,731 |
| Loans collateralized by equipment and rights thereon | 678,540 | 586,542 |
| Loans collateralized by inventories | 621,837 | 591,642 |
| Loans collateralized by guarantees of legal entities | 380,696 | 122,409 |
| Loans collateralized by cash or guarantee deposits | 42,053 | 15,301 |
| Loans collateralized by state guarantees | 29,302 | - |
| Loans collateralized by other or mixed types of collateral | <u>1,090,780</u> | <u>1,020,071</u> |
| | 6,354,223 | 5,100,359 |
| Less allowance for impairment losses | <u>(187,133)</u> | <u>(164,080)</u> |
| Total loans to customers | <u>6,167,090</u> | <u>4,936,279</u> |

| | 31 December 2012 | 31 December 2011 |
|--------------------------------------|-----------------------------|-----------------------------|
| Analysis by sector: | | |
| Trade | 1,172,642 | 882,344 |
| Retail portfolio | 944,453 | 981,943 |
| Transport | 577,239 | 284,522 |
| Machinery construction | 570,177 | 499,425 |
| Metallurgy | 513,400 | 343,469 |
| Food industry | 372,531 | 563,253 |
| Chemistry and petrochemistry | 367,898 | 184,471 |
| Oil industry | 176,079 | 92,719 |
| Construction | 169,048 | 140,991 |
| Investments in real estate | 145,814 | 97,047 |
| Financial and insurance services | 139,596 | 73,619 |
| Other production | 131,350 | 66,953 |
| Light industry | 103,969 | 73,098 |
| Energy | 86,714 | 162,139 |
| Agriculture | 83,572 | 14,286 |
| Timber industry | 70,653 | 48,723 |
| Media business | 25,435 | 17,990 |
| Gas transportation | 993 | 156,076 |
| Other | <u>702,660</u> | <u>417,291</u> |
| | 6,354,223 | 5,100,359 |
| Less allowance for impairment losses | <u>(187,133)</u> | <u>(164,080)</u> |
| Total loans to customers | <u>6,167,090</u> | <u>4,936,279</u> |

As at 31 December 2012 the Bank provided loans to two customers totalling BYR 736,312 million before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

As at 31 December 2011 the Bank provided loans to eight customers totalling BYR 1,417,719 million before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

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

Loans to individuals comprise the following products:

| | 31 December 2012 | 31 December 2011 |
|--------------------------------------|-----------------------|-----------------------|
| Consumer loans "Delay" | 489,863 | 434,133 |
| Plastic cards | 216,325 | 171,050 |
| Loans to finance real estate | 146,724 | 179,916 |
| Consumer loans | 52,701 | 121,299 |
| Car loans | 36,228 | 73,340 |
| Other | 2,612 | 2,205 |
| | <u>944,453</u> | <u>981,943</u> |
| Less allowance for impairment losses | <u>(55,682)</u> | <u>(59,592)</u> |
| Total loans to individuals | <u>888,771</u> | <u>922,351</u> |

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

Analysis of loans and allowances for impairment losses by class of loans and impairment assessment method as at 31 December 2012 and 2011 is presented in the following tables:

| | 31 December 2012 | | |
|--|--|---------------------------------------|---|
| | Loans before allowance for impairment losses | Allowance for impairment losses | Loans less allowance for impairment losses |
| Loans assessed for impairment individually | 3,003,685 | (106,063) | 2,897,622 |
| Loans assessed for impairment collectively | <u>3,350,538</u> | <u>(81,070)</u> | <u>3,269,468</u> |
| Total loans to customers | <u>6,354,223</u> | <u>(187,133)</u> | <u>6,167,090</u> |

| | 31 December 2011 | | |
|--|--|---------------------------------------|---|
| | Loans before allowance for impairment losses | Allowance for impairment losses | Loans less allowance for impairment losses |
| Loans assessed for impairment individually | 2,638,331 | (88,468) | 2,549,863 |
| Loans assessed for impairment collectively | <u>2,462,028</u> | <u>(75,612)</u> | <u>2,386,416</u> |
| Total loans to customers | <u>5,100,359</u> | <u>(164,080)</u> | <u>4,936,279</u> |

The components of net investment in finance lease as at 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|----------------------|----------------------|
| Less than one year | 58,279 | 60,476 |
| From one year to five years | 73,160 | 63,861 |
| More than five years | <u>13,265</u> | <u>18,462</u> |
| Minimum payments on financial lease contracts | 144,704 | 142,799 |
| Less: unearned finance income | <u>(51,553)</u> | <u>(79,820)</u> |
| Net investment in finance lease | <u>93,151</u> | <u>62,979</u> |
| Current portion | 38,630 | 30,442 |
| Long-term portion | <u>54,521</u> | <u>32,537</u> |
| Net investment in finance lease | <u>93,151</u> | <u>62,979</u> |

17. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

| | Interest to nominal | 31 December 2012 | Interest to nominal | 31 December 2011 |
|--|------------------------|-----------------------|------------------------|----------------------|
| Bonds issued by Belarusian banks in Belarusian Rubles | 30%-32% | 132,072 | 47% | 22,262 |
| Other unquoted equity instruments | | <u>398</u> | | <u>191</u> |
| Total investments available for sale | | <u>132,470</u> | | <u>22,453</u> |

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

| | Buildings and premises | Computer equipment, furniture and other equipment | Vehicles | Construction in progress | Intangible assets | Total |
|---|---------------------------|---|---------------------|-----------------------------|----------------------|-----------------------|
| At initial cost, restated for hyperinflation effect | | | | | | |
| 31 December 2010 | 146,292 | 96,894 | 13,873 | 14,775 | 37,844 | 309,678 |
| Additions | - | - | - | 74,547 | 12,573 | 87,120 |
| Transfers among categories | 34,789 | 30,734 | 1,098 | (66,789) | 168 | - |
| Disposals | <u>(1,061)</u> | <u>(3,321)</u> | <u>-</u> | <u>(308)</u> | <u>(10,972)</u> | <u>(15,662)</u> |
| 31 December 2011 | 180,020 | 124,307 | 14,971 | 22,225 | 39,613 | 381,136 |
| Additions | - | - | - | 46,676 | 19,673 | 66,349 |
| Transfers among categories | 4,266 | 41,724 | 3,388 | (49,608) | 230 | - |
| Disposals | <u>(10,394)</u> | <u>(4,211)</u> | <u>(3,113)</u> | <u>-</u> | <u>(2,538)</u> | <u>(20,256)</u> |
| 31 December 2012 | <u>173,892</u> | <u>161,820</u> | <u>15,246</u> | <u>19,293</u> | <u>56,978</u> | <u>427,229</u> |
| Accumulated depreciation, restated for hyperinflation effect | | | | | | |
| 31 December 2010 | 14,188 | 39,507 | 6,091 | - | 11,834 | 71,620 |
| Charge for the period | 3,313 | 12,032 | 1,791 | - | 7,950 | 25,086 |
| Eliminated on disposal | <u>(57)</u> | <u>(2,922)</u> | <u>-</u> | <u>-</u> | <u>(10,955)</u> | <u>(13,934)</u> |
| 31 December 2011 | 17,444 | 48,617 | 7,882 | - | 8,829 | 82,772 |
| Charge for the period | 3,738 | 16,456 | 2,104 | - | 8,884 | 31,182 |
| Eliminated on disposal | <u>(999)</u> | <u>(3,805)</u> | <u>(2,820)</u> | <u>-</u> | <u>(2,531)</u> | <u>(10,155)</u> |
| 31 December 2012 | <u>20,183</u> | <u>61,268</u> | <u>7,166</u> | <u>-</u> | <u>15,182</u> | <u>103,799</u> |
| Net book value | | | | | | |
| 31 December 2012 | <u>153,709</u> | <u>100,552</u> | <u>8,080</u> | <u>19,293</u> | <u>41,796</u> | <u>323,430</u> |
| 31 December 2011 | <u>162,576</u> | <u>75,690</u> | <u>7,089</u> | <u>22,225</u> | <u>30,784</u> | <u>298,364</u> |

19. OTHER ASSETS

Other assets comprise:

| | 31 December 2012 | 31 December 2011 |
|--|-----------------------|----------------------|
| Other financial assets: | | |
| Commission income and fines accrued | 8,773 | 10,329 |
| Settlements on plastic cards | 5,060 | 2,803 |
| Receivables for sale of non-current assets held for sale | 363 | 1,006 |
| Other debtors | <u>6,280</u> | <u>3,215</u> |
| Less allowance for impairment losses | <u>(1,794)</u> | <u>(1,462)</u> |
| Total other financial assets | 18,682 | 15,891 |
| Other non-financial assets: | | |
| Prepayments for property, equipment and other assets | 65,718 | 59,467 |
| Prepaid expenses and other non-financial assets | 19,623 | 16,442 |
| Taxes recoverable and prepaid other than income tax | 3,349 | 2 |
| Materials | <u>1,467</u> | <u>1,997</u> |
| Total other assets | <u>108,839</u> | <u>93,799</u> |

Movements in allowance for impairment losses on other assets for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

20. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

| | 31 December 2012 | 31 December 2011 |
|--|-------------------------|-------------------------|
| Loans from banks and non-banking financial institutions | 1,372,408 | 1,334,842 |
| Loans from European Bank for Reconstruction and Development ("EBRD") | 378,600 | 412,417 |
| Correspondent and demand accounts of other banks | 326,656 | 469,345 |
| Loans from European Fund for Southeast Europe ("EFSE") | 234,785 | 344,068 |
| Loans from Eurasian Development Bank ("EDB") | <u>115,705</u> | <u>223,480</u> |
| Total due to banks and other financial institutions | <u>2,428,154</u> | <u>2,784,152</u> |

As at 31 December 2012 due to banks and other financial institutions included loans from three financial institutions totalling BYR 1,276,790 million, which represented significant concentration (53% of the total).

As at 31 December 2011 due to banks and other financial institutions included loans from eight financial institutions totalling BYR 2,658,812 million, which represented significant concentration (95% of the total).

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2012 | 31 December 2011 |
|--|-------------------------|-------------------------|
| Time deposits | 4,090,860 | 3,170,306 |
| Current/settlement accounts and deposits repayable on demand | <u>1,616,518</u> | <u>1,506,290</u> |
| Total customer accounts | <u>5,707,378</u> | <u>4,676,596</u> |

As at 31 December 2012 and 2011 customer accounts of BYR 1,693,953 million (30% of the total) and BYR 1,690,342 million (36% of the total) comprised the balances of accounts of five and four customers, respectively, which represented significant concentration.

As at 31 December 2012 and 2011 customer accounts of BYR 95,615 million and BYR 475,734 million, respectively, were held as security against letters of credit, guarantees and loans issued by the Bank.

| | 31 December 2012 | 31 December 2011 |
|----------------------------------|-----------------------------|-----------------------------|
| Analysis by sector: | | |
| Individuals | 2,449,087 | 1,488,533 |
| Gas industry | 709,273 | 910,035 |
| Trade | 674,782 | 371,070 |
| Machinery construction | 567,590 | 714,609 |
| Financial and insurance services | 349,597 | 76,536 |
| Construction | 248,487 | 157,837 |
| Investments in real estate | 90,335 | 110,911 |
| Metallurgy | 72,092 | 5,732 |
| Transport | 57,399 | 50,767 |
| Other production | 42,865 | 32,369 |
| Chemistry and petrochemistry | 40,048 | 53,207 |
| Food industry | 37,939 | 17,782 |
| Timber industry | 21,751 | 27,193 |
| Agriculture | 19,691 | 26,198 |
| Energy | 18,039 | 3,811 |
| Oil industry | 10,914 | 350,401 |
| Media business | 10,777 | 5,721 |
| Light industry | 9,175 | 15,767 |
| Communication | 5,016 | 1,371 |
| Other | 272,521 | 256,746 |
| Total customer accounts | <u>5,707,378</u> | <u>4,676,596</u> |

As at 31 December 2012 time deposits included a loan of BYR 257,100 million from a legal entity non-resident of the Republic of Belarus with maturity within 2013.

22. DEBT SECURITIES ISSUED

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

23. OTHER LIABILITIES

Other liabilities comprise:

| | 31 December 2012 | 31 December 2011 |
|--|-----------------------------|-----------------------------|
| Other financial liabilities: | | |
| Compensation payable to employees | 17,194 | 12,762 |
| Provision for guarantees and other contingent liabilities | 10,108 | 19,814 |
| Settlements for property and equipment and other assets acquired | 3,734 | 5,897 |
| Settlements on other banking operations and accrued expenses | 16,046 | 11,032 |
| Total other financial liabilities | <u>47,082</u> | <u>49,505</u> |
| Other non-financial liabilities: | | |
| Contributions payable to deposits security fund | 7,320 | 4,433 |
| Taxes payable, other than income tax | 2,534 | 6,354 |
| Other non-financial liabilities | 888 | 711 |
| Total other liabilities | <u>57,824</u> | <u>61,003</u> |

Movements in provision for guarantees and other commitments for the years ended 31 December 2012 and 2011 are disclosed in Note 5.

24. SUBORDINATED DEBTS

Within 12 months of 2012 the Bank repaid subordinated debts, previously received from Gazprombank (Open Joint Stock Company), with amortised cost of BYR 457,266 million as at 31 December 2011.

25. SHARE CAPITAL

As at 31 December 2012 authorized, issued and fully paid capital of the Bank consisted of 1,252,008,799,649 ordinary shares and 260,044,863 preference shares all with par value of BYR 1 each (at historical cost).

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

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

During the years ended 31 December 2012 and 2011 the Bank declared and paid BYR 60,923 million and BYR 65,934 million dividends on ordinary and preference shares which comprised BYR 0.08 and BYR 0.15 per share for the years 2011 and 2010, respectively.

The Bank's retained earnings distributable to shareholders are limited to the amount of retained earnings that are stated in the financial statements prepared according to the Belarusian accounting rules. As per these financial statements as at 31 December 2012 and 2011 the retained earnings comprised BYR 498,842 million and BYR 274,301 million, respectively (not audited). Non-distributable funds comprise property and equipment revaluation fund and reserve fund created in compliance with Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities. In accordance with the legislation the reserve fund is created for the mentioned objectives in the amount of not less than 5% of the Bank's share capital stated in the financial statements under statutory accounting principles.

26. CONTINGENT LIABILITIES AND COMMITMENTS

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

The Bank's maximum exposure to credit risk on contingent liabilities and loan commitments in the case of failure to execute its obligations by the other counterparty and when all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

As at 31 December 2012 and 2011 the nominal or contract amounts of contingent liabilities and credit commitments were:

| | 31 December 2012 | 31 December 2011 |
|--|---------------------|---------------------|
| Contingent liabilities and credit commitments | | |
| Guarantees issued and similar contingencies | 631,264 | 607,707 |
| Letters of credit, covered by cash | 26,293 | 20,257 |
| Letters of credit, not covered by cash | 36,233 | 240,833 |
| Commitments on loans and unused credit lines, cancellable | 1,352,170 | 777,369 |
| Total contingent liabilities and credit commitments | 2,045,960 | 1,646,166 |

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

Pensions and retirement plans – Employees have a right to receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2012 and 2011 the Bank had no liabilities for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Capital commitments – As at 31 December 2012 and 2011 the Bank had contractual commitments in the amount of USD 29.2 million in accordance with agreement on joint investment project (construction of multistorey administrative building with underground car parking to be partly used as an office of the Bank in Minsk). As at 31 December 2012 the Bank paid USD 2.7 million under the agreement, recorded as a prepayment for property, plant and equipment (Note 19).

Operating lease commitments – As at 31 December 2012 future minimal lease payments under non-cancellable operating lease agreements for less than 1 year term amounted to BYR 4,303 million. As at 31 December 2011 the Bank did not have any of the above mentioned commitments.

Other contingent liabilities – As at 31 December 2012 and 2011 the Bank had contingent liabilities related to guarantees issued as to settlements in MasterCard system in the amount of BYR 17,788 million and BYR 5,849 million, respectively.

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

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

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

27. RELATED PARTY TRANSACTIONS

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

| | 31 December 2012 | | 31 December 2011 | |
|--|---------------------------|--|---------------------------|--|
| | Related party balances | Total category as per financial statements caption | Related party balances | Total category as per financial statements caption |
| Securities at fair value through profit or loss | - | 481,281 | 2,132 | 714,369 |
| - <i>entities under common control</i> | - | | 2,132 | |
| Due from banks and other financial institutions | 406,392 | 1,170,608 | 176,982 | 1,263,347 |
| - <i>shareholders</i> | 3,108 | | 595 | |
| - <i>entities under common control</i> | 403,284 | | 176,387 | |
| Loans to customers before allowance for impairment losses | 4,703 | 6,354,223 | 158,272 | 5,100,359 |
| - <i>entities under common control</i> | 168 | | 153,811 | |
| - <i>key management personnel</i> | 4,535 | | 4,461 | |

| | 31 December 2012 | | 31 December 2011 | |
|--|------------------------|--|------------------------|--|
| | Related party balances | Total category as per financial statements caption | Related party balances | Total category as per financial statements caption |
| Allowance for impairment losses | 102 | 187,133 | 1,495 | 164,080 |
| - entities under common control | 2 | | 1,341 | |
| - key management personnel | 100 | | 154 | |
| Due to banks and other financial institutions | 825,644 | 2,428,154 | 469,820 | 2,784,152 |
| - shareholders | 653,386 | | 249,277 | |
| - entities under common control | 172,258 | | 220,543 | |
| Customer accounts | 1,538,423 | 5,707,378 | 1,567,760 | 4,676,596 |
| - shareholders | 606 | | 731 | |
| - entities under common control | 1,508,176 | | 1,541,384 | |
| - key management personnel | 29,641 | | 25,645 | |
| Other liabilities | 2,061 | 57,824 | 1,519 | 61,003 |
| - key management personnel | 2,061 | | 1,519 | |
| Subordinated debts | - | - | 457,266 | 457,266 |
| -shareholders | - | | 457,266 | |
| Commitments and contingencies | 5,129 | 2,045,960 | 6,510 | 1,646,166 |
| -entities under common control | 3,328 | | 4,595 | |
| - key management personnel | 1,801 | | 1,915 | |

Included in the income statement for the years ended 31 December 2012 and 2011 are the following amounts which arose due to transactions with related parties:

| | Year ended 31 December 2012 | | Year ended 31 December 2011 | |
|---|-----------------------------|--|-----------------------------|--|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| Interest income | 14,552 | 1,347,937 | 21,218 | 1,119,729 |
| - shareholders | 59 | | 40 | |
| - entities under common control | 13,532 | | 19,672 | |
| - key management personnel | 961 | | 1,506 | |
| Fee and commission income | 21,525 | 218,438 | 36,649 | 226,593 |
| - shareholders | 88 | | 94 | |
| - entities under common control | 21,437 | | 36,555 | |
| Interest expense: | (234,859) | (734,116) | (183,247) | (590,497) |
| - shareholders | (41,691) | | (54,598) | |
| - entities under common control | (190,016) | | (126,736) | |
| - key management personnel | (3,152) | | (1,913) | |
| Operating expenses | (36,369) | (405,234) | (28,390) | (340,947) |
| - key management personnel (remuneration) | (36,369) | | (28,390) | |
| (Provision)/recovery of provision for impairment losses on interest bearing assets | 1,257 | (70,419) | (241) | (138,505) |
| - entities under common control | 1,228 | | (245) | |
| - key management personnel | 29 | | 4 | |

During the years ended 31 December 2012 and 2011 remuneration to key management personnel consisted of short-term employee benefits.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments for which fair value approximates carrying value

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

Due from banks and other financial institutions

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

Loans to customers

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

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

Due to the National bank, other banks and financial institutions

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

- The management believes that fair value of deposits with floating interest rates does not materially differ from their carrying value.
- Most of the loans with fixed rates have maturities up to one year. Due to this fact the fair value of loans from banks with fixed rate does not also materially differ from the carrying value.

Customer accounts

Customer deposits have both variable and fixed rates.

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

Debt securities issued

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

Subordinated debts

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

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

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Bank has the ability to access for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations for which all significant inputs are observable, either directly or indirectly, and valuations based on observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

| | 31 December 2012 | | 31 December 2011 | |
|--|--|---|---|---|
| | Quoted prices in active market (Level 1) | Valuation techniques based on observable market data (Level 2) | Quoted prices in active market (Level 1) | Valuation techniques based on observable market data (Level 2) |
| Securities at fair value through profit or loss | 481,281 | - | 714,369 | - |
| Derivative financial instruments (assets) | - | 1,259,007 | - | 1,356,716 |
| Investments available for sale, less equity investments | - | 132,072 | - | 22,262 |
| Derivative financial instruments (liabilities) | - | 3,687 | - | 256 |

29. CAPITAL MANAGEMENT

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|--|-----------------------------------|-----------------------------------|
| Composition of regulatory capital: | | |
| Tier 1 capital: | | |
| Share capital | 2,310,695 | 1,381,953 |
| Retained earnings/ (accumulated deficit) | 33,195 | (186,634) |
| Total qualifying Tier 1 capital | 2,343,890 | 1,195,319 |
| Subordinated debts | - | 407,933 |
| Investments available for sale revaluation reserve | 8,564 | (2,873) |
| Total regulatory capital | 2,352,454 | 1,600,379 |
| Capital ratios: | | |
| Tier 1 capital | 19% | 13% |
| Total equity | 19% | 17% |

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

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

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

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

30. RISK MANAGEMENT POLICIES

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

Risk management structure

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

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

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

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

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

Systems of risk evaluation and communication

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

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

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

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

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

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

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

Excessive risk concentration

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

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

Credit risk

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

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

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

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

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

During the year 2012 in the course of enhancement of the credit risk management following improvements to the risk management system have been introduced:

- The financing of clients was performed in accordance with additional recommendations on credit risk minimization in lending to corporate clients to minimize risks and avoid increase of bad debt;
- The Department of risk management was granted broader authority on independent reviews of transactions with loans to enhance the effectiveness of decisions made by the credit committees;
- Transition to unified method of quantitative credit risk assessment within aggregate risk was performed to enhance the mechanism of various risks assessment;
- Additional restriction on client financing in foreign currency was introduced to decrease credit risk concentration;
- Procedure of calculation of insurance risks limits for insurance institutions, providing risk insurance services to the Bank was developed;
- Under requirements set by the Regulator stricter approaches to special provisions for possible losses on off-balance assets and operations were applied;
- Certain internal local acts relating to transactions with loans were updated.

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

Maximum credit risk exposure

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

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

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

| | 31 December 2012 Maximum exposure to credit risk | 31 December 2011 Maximum exposure to credit risk |
|---|---|---|
| Due from the National Bank of the Republic of Belarus | 984,979 | 452,795 |
| Securities at fair value through profit or loss | 481,281 | 709,585 |
| Derivative financial instruments | 1,259,007 | 1,356,716 |
| Due from banks and other financial institutions | 1,170,608 | 1,263,347 |
| Loans to customers | 6,167,090 | 4,936,279 |
| Investments available for sale | 132,072 | 22,262 |
| Other financial assets | 18,682 | 15,891 |
| Guarantees issued and similar commitments | 532,415 | 586,221 |
| Letters of credit, not covered by cash | 35,955 | 237,619 |

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

The sovereign credit rating in foreign currency of the Republic of Belarus according to the international rating agency Standard & Poor's in 2012 and 2011 corresponded to level B-.

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

| | AAA | AA | A | BBB | BB | Lower than BB | Not rated | 31 December 2012 Total |
|---|------------|-----------|----------|------------|-----------|--------------------------|------------------|---------------------------------------|
| Due from the National Bank of the Republic of Belarus | - | - | - | - | - | 984,979 | - | 984,979 |
| Securities at fair value through profit or loss | - | - | - | - | - | 481,281 | - | 481,281 |
| Derivative financial instruments | - | - | - | 114 | 801 | 1,256,895 | 1,197 | 1,259,007 |
| Due from banks and other financial institutions | - | - | 163,569 | 32,237 | 110,436 | 677,938 | 186,428 | 1,170,608 |
| Loans to customers | - | - | - | - | - | - | 6,167,090 | 6,167,090 |
| Investments available for sale | - | - | - | - | - | 132,072 | 398 | 132,470 |
| Other financial assets | - | - | - | - | - | - | 18,682 | 18,682 |
| | AAA | AA | A | BBB | BB | Lower than BB | Not rated | 31 December 2011 Total |
| Due from the National Bank of the Republic of Belarus | - | - | - | - | - | 452,795 | - | 452,795 |
| Securities at fair value through profit or loss | 402,411 | - | 1,660 | 3,124 | - | 307,174 | - | 714,369 |
| Derivative financial instruments | - | - | - | - | 6 | 1,356,200 | 510 | 1,356,716 |
| Due from banks and other financial institutions | - | 61,610 | 370,470 | 330 | 19,952 | 455,501 | 355,484 | 1,263,347 |
| Loans to customers | - | - | - | - | - | - | 4,936,279 | 4,936,279 |
| Investments available for sale | - | - | - | - | - | 22,262 | 191 | 22,453 |
| Other financial assets | - | 97 | 54 | - | - | 2,092 | 13,648 | 15,891 |

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

The carrying value of impaired loans to customers is disclosed in Note 16. As at 31 December 2012 and 2011 other financial assets comprised impaired assets in the amount of BYR 3,210 million and BYR 3,238 million, respectively. As at 31 December 2012 and 2011 the Bank had no past due but not impaired financial assets.

Collateral pledged

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

Monitoring of the market value of collateral is performed on a regular basis, results are reported to the management of the Bank. If necessary, borrowers are requested to provide additional collateral in accordance with the underlying agreement.

Geographical concentration

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

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

| | Belarus | CIS countries | OECD countries | Other non-OECD countries | 31 December 2012 Total |
|---|------------------|------------------|--------------------|--------------------------|---------------------------|
| FINANCIAL ASSETS: | | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 1,303,968 | - | - | - | 1,303,968 |
| Securities at fair value through profit or loss | 481,281 | - | - | - | 481,281 |
| Derivative financial instruments | 1,258,092 | 915 | - | - | 1,259,007 |
| Due from banks and other financial institutions | 630,207 | 225,039 | 314,318 | 1,044 | 1,170,608 |
| Loans to customers | 6,167,004 | 11 | 23 | 52 | 6,167,090 |
| Investments available for sale | 132,266 | - | 204 | - | 132,470 |
| Other financial assets | 18,132 | 3 | 469 | 78 | 18,682 |
| TOTAL FINANCIAL ASSETS | 9,990,950 | 225,968 | 315,014 | 1,174 | 10,533,106 |
| FINANCIAL LIABILITIES: | | | | | |
| Derivative financial instruments | - | 3,687 | - | - | 3,687 |
| Due to banks and other financial institutions | 94,126 | 792,464 | 1,179,823 | 361,741 | 2,428,154 |
| Customer accounts | 5,192,992 | 69,878 | 313,500 | 131,008 | 5,707,378 |
| Debt securities issued | 356,151 | - | - | - | 356,151 |
| Other financial liabilities | 42,895 | 368 | 3,452 | 367 | 47,082 |
| Subordinated debts | - | - | - | - | - |
| TOTAL FINANCIAL LIABILITIES | 5,686,164 | 866,397 | 1,496,775 | 493,116 | 8,542,452 |
| OPEN POSITION | 4,304,786 | (640,429) | (1,181,761) | (491,942) | |

| | Belarus | CIS countries | OECD countries | Non-OECD countries | 31 December 2011 Total |
|---|------------------|--------------------|------------------|--------------------|------------------------|
| FINANCIAL ASSETS: | | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 806,481 | - | - | - | 806,481 |
| Securities at fair value through profit or loss | 307,174 | 4,784 | 402,411 | - | 714,369 |
| Derivative financial instruments | 1,356,150 | 347 | - | 219 | 1,356,716 |
| Due from banks and other financial institutions | 474,567 | 29,636 | 756,771 | 2,373 | 1,263,347 |
| Loans to customers | 4,936,221 | 9 | 19 | 30 | 4,936,279 |
| Investments available for sale | 22,307 | - | 146 | - | 22,453 |
| Other financial assets | 15,740 | - | 151 | - | 15,891 |
| TOTAL FINANCIAL ASSETS | 7,918,640 | 34,776 | 1,159,498 | 2,622 | 9,115,536 |
| FINANCIAL LIABILITIES: | | | | | |
| Derivative financial instruments | - | 107 | - | 149 | 256 |
| Loans from the National Bank of the Republic of Belarus | 2,407 | - | - | - | 2,407 |
| Due to banks and other financial institutions | 4,108 | 1,167,071 | 1,127,543 | 485,430 | 2,784,152 |
| Customer accounts | 4,550,889 | 39,420 | 35,777 | 50,510 | 4,676,596 |
| Debt securities issued | 337,143 | - | - | - | 337,143 |
| Other financial liabilities | 44,396 | 4,884 | 225 | - | 49,505 |
| Subordinated debts | - | 457,266 | - | - | 457,266 |
| TOTAL FINANCIAL LIABILITIES | 4,938,943 | 1,668,748 | 1,163,545 | 536,089 | 8,307,325 |
| OPEN POSITION | 2,979,697 | (1,633,972) | (4,047) | (533,467) | |

Liquidity risk

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

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

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

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

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

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2012 Total |
|---|------------------|---------------------|--------------------|-------------------|------------------|------------------------|
| FINANCIAL LIABILITIES: | | | | | | |
| Due to banks and other financial institutions | 811,866 | 192,957 | 773,228 | 824,076 | 56,392 | 2,658,519 |
| Customer accounts | 1,669,597 | 181,671 | 1,277,956 | 1,522,692 | 1,527,617 | 6,179,533 |
| Debt securities issued | 771 | 167 | 335,172 | 48,260 | - | 384,370 |
| Total interest bearing financial liabilities | 2,482,234 | 374,795 | 2,386,356 | 2,395,028 | 1,584,009 | 9,222,422 |
| Due to banks and other financial institutions | 17,651 | - | - | - | - | 17,651 |
| Customer accounts | 839,276 | - | - | - | - | 839,276 |
| Other financial liabilities | 44,184 | 1,508 | 1,310 | 80 | - | 47,082 |
| Guarantees issued and similar commitments | 532,415 | - | - | - | - | 532,415 |
| Letters of credit, not covered by cash | 25,354 | 36 | 180 | 10,385 | - | 35,955 |
| TOTAL FINANCIAL LIABILITIES | 3,941,114 | 376,339 | 2,387,846 | 2,405,493 | 1,584,009 | 10,694,801 |

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2011 Total |
|---|------------------|---------------------|--------------------|-------------------|----------------|------------------------|
| FINANCIAL LIABILITIES: | | | | | | |
| Loans from the National Bank of the Republic of Belarus | - | - | 2,466 | - | - | 2,466 |
| Due to banks and other financial institutions | 755,818 | 203,810 | 1,181,415 | 741,216 | 93,644 | 2,975,903 |
| Customer accounts | 1,338,339 | 616,020 | 1,182,542 | 1,664,386 | 698,573 | 5,499,860 |
| Debt securities issued | 2,304 | 30 | 129,479 | 282,149 | - | 413,962 |
| Subordinated debts | - | 51,621 | 29,355 | 523,636 | - | 604,612 |
| Total interest bearing financial liabilities | 2,096,461 | 871,481 | 2,525,257 | 3,211,387 | 792,217 | 9,496,803 |
| Due to banks and other financial institutions | 40,764 | - | - | - | - | 40,764 |
| Customer accounts | 539,312 | - | - | - | - | 539,312 |
| Other financial liabilities | 49,032 | 473 | - | - | - | 49,505 |
| Guarantees issued and similar commitments | 586,221 | - | - | - | - | 586,221 |
| Letters of credit, not covered by cash | 208,659 | - | 4,701 | 24,259 | - | 237,619 |
| TOTAL FINANCIAL LIABILITIES | 3,520,449 | 871,954 | 2,529,958 | 3,235,646 | 792,217 | 10,950,224 |

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

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2012 Total |
|---|------------------|---------------------|--------------------|-------------------|------------------|----------------|--------------------|------------------------|
| FINANCIAL ASSETS: | | | | | | | | |
| Securities at fair value through profit or loss | 481,281 | - | - | - | - | - | - | 481,281 |
| Due from banks and other financial institutions | 686,209 | 103,631 | 183,912 | - | - | - | 32,563 | 1,006,315 |
| Loans to customers | 283,157 | 1,062,390 | 1,899,273 | 2,514,898 | 284,753 | 122,619 | - | 6,167,090 |
| Investments available for sale | 455 | 2,541 | - | 129,076 | - | - | - | 132,072 |
| Total interest bearing financial assets | 1,451,102 | 1,168,562 | 2,083,185 | 2,643,974 | 284,753 | 122,619 | 32,563 | 7,786,758 |
| Cash and balances with the National Bank of the Republic of Belarus | 1,237,141 | - | - | - | - | - | 66,827 | 1,303,968 |
| Derivative financial instruments | 1,378 | - | - | 1,256,895 | - | - | 734 | 1,259,007 |
| Due from banks and other financial institutions | 164,293 | - | - | - | - | - | - | 164,293 |
| Investments available for sale | - | - | - | - | - | - | 398 | 398 |
| Other financial assets | 8,167 | 301 | 24 | 2,904 | - | - | 7,286 | 18,682 |
| TOTAL FINANCIAL ASSETS | 2,862,081 | 1,168,863 | 2,083,209 | 3,903,773 | 284,753 | 122,619 | 107,808 | 10,533,106 |
| FINANCIAL LIABILITIES: | | | | | | | | |
| Due to banks and other financial institutions | 792,856 | 183,544 | 707,827 | 674,991 | 51,285 | - | - | 2,410,503 |
| Customer accounts | 1,255,616 | 125,296 | 1,072,153 | 830,986 | 1,206,073 | - | 377,978 | 4,868,102 |
| Debt securities issued | 771 | 58 | 312,515 | 42,807 | - | - | - | 356,151 |
| Subordinated debts | - | - | - | - | - | - | - | - |
| Total interest bearing financial liabilities | 2,049,243 | 308,898 | 2,092,495 | 1,548,784 | 1,257,358 | - | 377,978 | 7,634,756 |
| Due to banks and other financial institutions | 17,651 | - | - | - | - | - | - | 17,651 |
| Customer accounts | 373,456 | - | - | - | - | - | 465,820 | 839,276 |
| Derivative financial instruments | 3,687 | - | - | - | - | - | - | 3,687 |
| Other financial liabilities | 44,184 | 1,508 | 1,310 | 80 | - | - | - | 47,082 |
| TOTAL FINANCIAL LIABILITIES | 2,488,221 | 310,406 | 2,093,805 | 1,548,864 | 1,257,358 | - | 843,798 | 8,542,452 |
| Liquidity gap | 373,860 | 858,457 | (10,596) | 2,354,909 | (972,605) | | | |
| Interest sensitivity gap | (598,141) | 859,664 | (9,310) | 1,095,190 | (972,605) | | | |
| Cumulative interest sensitivity gap | (598,141) | 261,523 | 252,213 | 1,347,403 | 374,798 | | | |
| Cumulative interest sensitivity gap as a percentage of total financial assets | (5.7%) | 2.5% | 2.4% | 12.8% | 3.6% | | | |

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2011 Total |
|---|------------------|---------------------|--------------------|-------------------|----------------|---------------|--------------------|------------------------|
| FINANCIAL ASSETS: | | | | | | | | |
| Securities at fair value through profit or loss | 709,585 | - | - | - | - | - | - | 709,585 |
| Due from banks and other financial institutions | 918,323 | - | - | - | - | - | 16,259 | 934,582 |
| Loans to customers | 343,413 | 670,507 | 2,048,841 | 1,649,827 | 200,720 | 22,971 | - | 4,936,279 |
| Investments available for sale | 795 | - | - | 21,467 | - | - | - | 22,262 |
| Total interest bearing financial assets | 1,972,116 | 670,507 | 2,048,841 | 1,671,294 | 200,720 | 22,971 | 16,259 | 6,602,708 |
| Cash and balances with the National Bank of the Republic of Belarus | 768,768 | - | - | - | - | - | 37,713 | 806,481 |
| Securities at fair value through profit or loss | 4,784 | - | - | - | - | - | - | 4,784 |
| Derivative financial instruments | 4,225 | - | 68,768 | 1,283,723 | - | - | - | 1,356,716 |
| Due from banks and other financial institutions | 328,765 | - | - | - | - | - | - | 328,765 |
| Investments available for sale | - | - | - | - | - | - | 191 | 191 |
| Other financial assets | 4,912 | 414 | 447 | 8,627 | - | - | 1,491 | 15,891 |
| TOTAL FINANCIAL ASSETS | 3,083,570 | 670,921 | 2,118,056 | 2,963,644 | 200,720 | 22,971 | 55,654 | 9,115,536 |
| FINANCIAL LIABILITIES: | | | | | | | | |
| Loans from the National Bank of the Republic of Belarus | - | - | 2,407 | - | - | - | - | 2,407 |
| Due to banks and other financial institutions | 710,612 | 197,906 | 1,121,585 | 643,171 | 70,114 | - | - | 2,743,388 |
| Customer accounts | 678,243 | 532,781 | 912,531 | 938,567 | 471,274 | - | 603,887 | 4,137,283 |
| Debt securities issued | 3,336 | - | 333,807 | - | - | - | - | 337,143 |
| Subordinated debts | - | 50,807 | - | 406,459 | - | - | - | 457,266 |
| Total interest bearing financial liabilities | 1,392,191 | 781,494 | 2,370,330 | 1,988,197 | 541,388 | - | 603,887 | 7,677,487 |
| Due to banks and other financial institutions | 40,764 | - | - | - | - | - | - | 40,764 |
| Customer accounts | 100,970 | - | - | - | - | - | 438,343 | 539,313 |
| Derivative financial instruments | 256 | - | - | - | - | - | - | 256 |
| Other financial liabilities | 49,032 | 473 | - | - | - | - | - | 49,505 |
| TOTAL FINANCIAL LIABILITIES | 1,583,213 | 781,967 | 2,370,330 | 1,988,197 | 541,388 | - | 1,042,230 | 8,307,325 |
| Liquidity gap | 1,500,357 | (111,046) | (252,274) | 975,447 | (340,668) | | | |
| Interest sensitivity gap | 579,925 | (110,987) | (321,489) | (316,903) | (340,668) | | | |
| Cumulative interest sensitivity gap | 579,925 | 468,938 | 147,449 | (169,454) | (510,122) | | | |
| Cumulative interest sensitivity gap as a percentage of total financial assets | 6.4% | 5.1% | 1.6% | (1.9%) | (5.6%) | | | |

Estimated maturity of the following categories of assets and liabilities differs from their contractual maturity.

Securities at fair value through profit or loss – the management estimates time of realization for assets carried at fair value in the balance sheet as at 31 December 2012 and 2011 as up to 1 month due to existence of an active market where securities can be sold in short terms.

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

The following table presents the contractual periods of repayment of the mentioned financial statement lines as at 31 December 2012 and 2011:

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2012 Total |
|---|---------------|---------------------|--------------------|-------------------|--------------|---------|--------------------|------------------------|
| Securities at fair value through profit or loss, interest bearing | - | - | 94,865 | 133,080 | 253,336 | - | - | 481,281 |
| Customer accounts, interest bearing | 1,633,594 | 125,296 | 1,072,153 | 830,986 | 1,206,073 | - | - | 4,868,102 |
| Customer accounts, non-interest bearing | 839,276 | - | - | - | - | - | - | 839,276 |
| | | | | | | | | |
| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2011 Total |
| Securities at fair value through profit or loss, interest bearing | 11,548 | - | 201,053 | 384,039 | 112,945 | - | - | 709,585 |
| Securities at fair value through profit or loss, non-interest bearing | - | - | - | - | - | - | 4,784 | 4,784 |
| Customer accounts, interest bearing | 1,282,130 | 532,781 | 912,531 | 938,567 | 471,274 | - | - | 4,137,283 |
| Customer accounts, non-interest bearing | 539,313 | - | - | - | - | - | - | 539,313 |

Market risk

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

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

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

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

Interest rate risk

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

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

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

| | 31 December 2012 | | 31 December 2011 | |
|--|-------------------------|----------------------|-------------------------|----------------------|
| | Interest rate | Interest rate | Interest rate | Interest rate |
| | 3% | -3% | 3% | -3% |
| Impact on profit before taxation | | | | |
| Assets | | | | |
| Securities at fair value through profit or loss | (39,243) | 39,243 | (36,933) | 36,933 |
| Derivative financial instruments | (10,310) | 10,310 | - | - |
| Due from banks and other financial institutions | 25,815 | (25,815) | 26,358 | (26,358) |
| Loans to customers | 128,328 | (128,328) | 106,013 | (106,013) |
| Investments available for sale | 3,713 | (3,713) | 617 | (617) |
| Liabilities | | | | |
| Loans from the National Bank of the Republic of Belarus | - | - | (45) | 45 |
| Due to banks and other financial institutions | (49,915) | 49,915 | (62,601) | 62,601 |
| Customer accounts | (64,389) | 64,389 | (68,245) | 68,245 |
| Debt securities issued | (65) | 65 | (2,472) | 2,472 |
| Subordinated debts | - | - | (1,462) | 1,462 |
| Net impact on profit before taxation | <u>(6,066)</u> | <u>6,066</u> | <u>(38,770)</u> | <u>38,770</u> |
| Impact on other comprehensive income | | | | |
| Investments available for sale | - | - | - | - |
| Net impact on comprehensive income after taxation | <u>(4,974)</u> | <u>4,974</u> | <u>(31,791)</u> | <u>31,791</u> |

Currency risk

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

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

The Bank's exposure to foreign currency exchange rate risk is as follows:

| | BYR | USD 1USD= BYR 8,570.00 | EUR 1EUR= BYR 11,340.00 | RUB 1RUB= BYR 282.00 | Other currencies | 31 December 2012 Total |
|---|------------------|---------------------------------|----------------------------------|-------------------------------|---------------------|------------------------------|
| FINANCIAL ASSETS: | | | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 1,141,618 | 68,416 | 64,988 | 28,437 | 509 | 1,303,968 |
| Securities at fair value through profit or loss | - | 481,281 | - | - | - | 481,281 |
| Derivative financial instruments | 1,258,273 | 734 | - | - | - | 1,259,007 |
| Due from banks and other financial institutions | 251,757 | 336,448 | 466,428 | 115,031 | 944 | 1,170,608 |
| Loans to customers | 1,586,120 | 2,782,559 | 1,459,231 | 339,180 | - | 6,167,090 |
| Investments available for sale | 132,470 | - | - | - | - | 132,470 |
| Other financial assets | 14,805 | 3,271 | 399 | 207 | - | 18,682 |
| TOTAL FINANCIAL ASSETS | 4,385,043 | 3,672,709 | 1,991,046 | 482,855 | 1,453 | 10,533,106 |
| FINANCIAL LIABILITIES: | | | | | | |
| Derivative financial instruments | 3,666 | 21 | - | - | - | 3,687 |
| Due to banks and other financial institutions | 121,555 | 1,940,906 | 363,219 | 2,461 | 13 | 2,428,154 |
| Customer accounts | 1,496,449 | 2,697,986 | 1,085,790 | 425,874 | 1,279 | 5,707,378 |
| Debt securities issued | - | 356,151 | - | - | - | 356,151 |
| Other financial liabilities | 30,819 | 4,822 | 10,235 | 1,206 | - | 47,082 |
| TOTAL FINANCIAL LIABILITIES | 1,652,489 | 4,999,886 | 1,459,244 | 429,541 | 1,292 | 8,542,452 |
| CURRENCY POSITION | 2,732,554 | (1,327,177) | 531,802 | 53,314 | 161 | |

Derivative financial instruments with foreign currency

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

| | BYR | USD 1USD= BYR 8,570.00 | EUR 1EUR= BYR 11,340.00 | RUB 1RUB= BYR 282.00 | Other currencies | 31 December 2012 Total |
|--|------------------|---------------------------------|----------------------------------|-------------------------------|---------------------|------------------------------|
| Claims on derivative financial instruments | - | 2,458,817 | 728,767 | 69,869 | 32,540 | 3,289,993 |
| Obligations on derivative financial instruments | (739,118) | (172,478) | (1,077,300) | (102,929) | - | (2,091,825) |
| NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT TRANSACTIONS POSITION | (739,118) | 2,286,339 | (348,533) | (33,060) | 32,540 | |
| TOTAL CURRENCY POSITION | 1,993,436 | 959,162 | 183,269 | 20,254 | 32,701 | |

| | BYR | USD 1USD= BYR 8,350.00 | EUR 1EUR= BYR 10,800.00 | RUB 1RUB= BYR 261.00 | Other currencies | 31 December 2011 Total |
|---|------------------|---------------------------------|----------------------------------|-------------------------------|---------------------|------------------------------|
| FINANCIAL ASSETS: | | | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 571,562 | 123,706 | 86,078 | 24,418 | 717 | 806,481 |
| Securities at fair value through profit or loss | - | 307,174 | 402,411 | 4,784 | - | 714,369 |
| Derivative financial instruments | 1,356,716 | - | - | - | - | 1,356,716 |
| Due from banks and other financial institutions | 452,364 | 310,742 | 469,608 | 29,432 | 1,201 | 1,263,347 |
| Loans to customers | 2,050,406 | 2,045,911 | 600,482 | 239,480 | - | 4,936,279 |
| Investments available for sale | 22,453 | - | - | - | - | 22,453 |
| Other financial assets | 10,917 | 3,768 | 763 | 443 | - | 15,891 |
| TOTAL FINANCIAL ASSETS | 4,464,418 | 2,791,301 | 1,559,342 | 298,557 | 1,918 | 9,115,536 |
| FINANCIAL LIABILITIES: | | | | | | |
| Derivative financial instruments | 256 | - | - | - | - | 256 |
| Loans from the National Bank of the Republic of Belarus | - | 2,407 | - | - | - | 2,407 |
| Due to banks and other financial institutions | 82,967 | 1,935,799 | 761,119 | 4,251 | 16 | 2,784,152 |
| Customer accounts | 1,641,915 | 1,751,530 | 947,582 | 335,434 | 135 | 4,676,596 |
| Debt securities issued | 370 | 335,148 | 1,625 | - | - | 337,143 |
| Other financial liabilities | 27,604 | 4,303 | 9,996 | 7,602 | - | 49,505 |
| Subordinated debts | - | 457,266 | - | - | - | 457,266 |
| TOTAL FINANCIAL LIABILITIES | 1,753,112 | 4,486,453 | 1,720,322 | 347,287 | 151 | 8,307,325 |
| CURRENCY POSITION | 2,711,306 | (1,695,152) | (160,980) | (48,730) | 1,767 | |

Derivative financial instruments with foreign currency

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

| | BYR | USD 1USD= BYR 8,350.00 | EUR 1EUR= BYR 10,800.00 | RUB 1RUB= BYR 261.00 | Other currencies | 31 December 2011 Total |
|--|------------------|---------------------------------|----------------------------------|-------------------------------|---------------------|------------------------------|
| Claims on derivative financial instruments | 293,460 | 2,049,461 | 919,551 | 71,331 | - | 3,333,803 |
| Obligations on derivative financial instruments | (916,236) | (228,818) | (729,435) | (10,237) | - | (1,884,726) |
| NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT TRANSACTIONS POSITION | (622,776) | 1,820,643 | 190,116 | 61,094 | - | |
| TOTAL CURRENCY POSITION | 2,088,530 | 125,491 | 29,136 | 12,364 | 1,767 | |

Currency risk sensitivity

The following tables detail the Bank's sensitivity to an increase by 20% and decrease by 10% of USD, EUR and RUB against national currency as at 31 December 2012 and 2011. The mentioned currency exchange rates changes represent management's assessment of the possible change in foreign currency exchange rates, which is used when reporting foreign currency risk internally to key management personnel of the Bank. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for an anticipated value change in foreign currency rates.

| | 31 December 2012 | | 31 December 2011 | |
|---|------------------|-----------------|------------------|-----------------|
| | BYR/USD +20% | BYR/USD -10% | BYR/USD +20% | BYR/USD -10% |
| Impact on profit before taxation | 191,832 | (95,916) | 25,098 | (12,549) |
| Impact on comprehensive income after taxation | 157,303 | (78,651) | 20,581 | (10,290) |

| | 31 December 2012 | | 31 December 2011 | |
|---|------------------|-----------------|------------------|-----------------|
| | BYR/EUR +20% | BYR/EUR -10% | BYR/EUR +20% | BYR/EUR -10% |
| Impact on profit before taxation | 36,654 | (18,327) | 5,827 | (2,914) |
| Impact on comprehensive income after taxation | 30,056 | (15,028) | 4,778 | (2,389) |

| | 31 December 2012 | | 31 December 2011 | |
|---|------------------|-----------------|------------------|-----------------|
| | BYR/RUB +20% | BYR/RUB -10% | BYR/RUB +20% | BYR/RUB -10% |
| Impact on profit before taxation | 4,051 | (2,025) | 2,473 | (1,236) |
| Impact on comprehensive income after taxation | 3,322 | (1,661) | 2,028 | (1,014) |

Limitations of sensitivity analysis

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

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

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

Price risk

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

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

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

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

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

| | 31 December 2012 | | 31 December 2011 | |
|---|--|--|--|--|
| | 3% increase in securities price | 3% decrease in securities price | 3% increase in securities price | 3% decrease in securities price |
| Impact on profit before taxation | 14,438 | (14,438) | 21,431 | (21,431) |
| Impact on comprehensive income after taxation | 15,814 | (15,814) | 18,247 | (18,247) |

Operational Risk

The Bank is subject to operational risk at all stages of its activity. Operational risk is the risk of loss arising from non-compliance of procedures specified by local regulations for banking operations and other transactions with legislation or breach thereof by employees, incompetence or human error, software and systems failure or external events.

To collect information on operational risk realization events the Bank maintains a corresponding database. It reflects data on events of operational risk realization and amounts of operational loss broken down by Bank activities, certain banking operations (processes), circumstances for occurrence and detection thereof.

The Bank performs assessment of operational risk to analyze operational risk condition and make correct management decisions.

Proactive methods of operational risk management in the Bank include maintaining of operational risks register and use of key operational risk indicators system.

Operational risk realization can result not only in financial losses, but can also damage Bank's reputation and negatively affect employees' performance efficiency. The Bank cannot expect to eliminate all operational risks, but it endeavours to expand the sphere of identified and manageable operational risk. This is implemented through internal control system development by setting limits and controls, risk insurance, process management system development and transfer or parts of risks to third parties. Internal control system implies efficient distribution of job responsibilities and authorized accesses to documents and other information, procedures for approval, comparative check and assessment in place, including internal audit, and development of personnel training system.

The Bank performs regular stress tests of operational risk to assess the resistance to realization of rare, but possible, catastrophe events. The stress test results are submitted to the Management for managerial decision-making.

31. SUBSEQUENT EVENTS

According to official statistics published by the National Statistical Committee the inflation level in the Republic of Belarus amounted to 3% for the first month of 2013.