Translation from the original in Russian

CJSC BTA Bank

Financial Statements

Year ended 31 December 2012
Together with Independent Auditors' Report

Contents

Independent auditors' report

Notes to financial statements

ERNST & YOUNG

Ernst & Young LLC
Korol Street, 51, 2nd floor, office 30
Minsk, 220004, Republic of Belarus
Tel: +375 (17) 209 4535
Fax: +375 (17) 209 4534
www.ey.com/belarus

ИООО «Эрнст энд Янг»
Республика Беларусь, 220004, Минск
ул. Короля, 51, 2 этаж, офис 30
Тел.: +375 (17) 209 4535
Факс: +375 (17) 209 4534

Translation from the original in Russian

Independent auditors' report

To the Shareholders and Supervisory Board of CJSC BTA Bank

We have audited the accompanying financial statements of Closed Joint Stock Company BTA Bank (further Bank), which comprise the statement of financial position as of 31 December 2012, and the statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLC

21 June 2013

Translation from the original in Russian

Statement of financial position

As at 31 December 2012

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

	Notes	2012	2011
Assets			
Cash and cash equivalents	5	130,595	202,995
Amounts due from the National Bank of the Republic of Belarus	6	4,598	3,351
Amounts due from credit institutions		-	7,254
Derivative financial assets	14	90,163	101,210
Loans to customers	7	400,530	346,742
Investment securities available-for-sale	8	27,259	32,344
Property and equipment	9	39,963	44,545
Intangible assets	10	394	527
Deferred tax asset		519	-
Current income tax asset		720	-
Other assets	12	5,111	1,125
Total assets		**699,852**	**740,093**
Liabilities			
Amounts due to credit institutions	15	163	12,243
Derivative financial liability	14	3	235
Amounts due to customers	17	405,269	478,943
Debt securities issued	18	68,899	37
Current tax liability		-	1,911
Deferred tax liability	11	-	1,341
Other liabilities	12	2,148	2,190
Subordinated debt	16	102,885	119,585
Total liabilities		**579,367**	**616,485**
Equity	19		
Share capital		197,285	189,579
Retained earnings		(93,666)	(82,849)
Fair value reserves		16,866	16,878
Total equity		**120,485**	**123,608**
Total equity and liabilities		**699,852**	**740,093**

Signed and authorised for release on behalf of the Management Board of the Bank

S.T. Marenov Chairman of the Board

T.N. Kovaleva Acting Chief Accountant

21 June 2013

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2012

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

	Notes	*2012*	*2011*
Interest income			
Loans to customers		86,975	87,830
Amounts due from credit institutions		13,208	11,960
Investment securities available for sale		10,304	4,824
Other		4	33
		110,491	**104,647**
Interest expense			
Amounts due to customers		(51,395)	(44,696)
Amounts due to credit institutions		(2,771)	(2,244)
Subordinated debt		(7,956)	(8,817)
Debt securities issued		(8,043)	(2,247)
Other		(207)	(412)
		(70,372)	**(58,416)**
Net interest income		**40,119**	**46,231**
Allowance for loan impairment	7	6,622	(15,008)
Net interest income after allowance for loan impairment		**46,741**	**31,223**
Net fee and commission income	21	16,777	14,900
Loss on the initial recognition of financial instruments at fair value		(4,715)	-
Net losses from investment securities available-for-sale		(590)	(397)
Net gains/(losses) from foreign currencies:			
- dealing		8,537	7,732
- translation differences		(2,152)	(89,311)
Net income from derivatives		7,154	100,954
Other income	22	766	3,430
Non-interest income		**25,777**	**37,308**
Personnel expenses	23	(30,596)	(29,267)
Depreciation and amortisation	9, 10	(3,004)	(2,570)
Other operating expenses	23	(19,877)	(17,792)
Other impairment and provisions	13	(1,644)	(247)
Taxes other than income tax		(1,640)	(1,998)
Non-interest expense		**(56,761)**	**(51,874)**
Profit before income tax expense and loss on net monetary position		**15,757**	**16,657**
Income tax expense	11	(3,782)	(2,797)
Profit before loss on net monetary position		11,975	13,860
Loss on net monetary position		(15,086)	(94,893)
Net loss for the year		**(3,111)**	**(81,033)**
Other comprehensive income			
Fixed assets revaluation		(3,027)	20,350
Deferred tax liabilities arising from fixed assets revaluation		3,015	(3,472)
Unrealised gains on investment securities available-for-sale		-	-
Realised gains on investment securities available-for-sale		-	(397)
Other comprehensive (loss)/income for the year		**(12)**	**16,481**
Total comprehensive loss for the year		**(3,123)**	**(64,552)**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2012
(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

	Note	*Share capital*	*Retained earnings*	*Fixed assets revaluation fund*	*Investment securities available-for-sale revaluation fund*	*Total*
As at 31 December 2010		**189,579**	**(1,816)**	**-**	**397**	**188,160**
Net loss for the year		-	(81,033)	-	-	(81,033)
Other comprehensive income/(expense)		-	-	16,878	(397)	16,481
Total comprehensive income/(expense) for the year		-	(81,033)	16,878	(397)	(64,552)
As at 31 December 2011		**189,579**	**(82,849)**	**16,878**	**-**	**123,608**
Increase in share capital	19	7,706	(7,706)	-	-	-
Net loss for the year		-	(3,111)	-	-	(3,111)
Other comprehensive expense		-	-	(12)	-	(12)
Total comprehensive expense for the year		-	(3,111)	(12)	-	(3,123)
As at 31 December 2012		**197,285**	**(93,666)**	**16,866**	**-**	**120,485**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2012

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

	Notes	*2012*	*2011*
Cash flows from operating activities			
Net profit for the year before hyperinflation		11,975	13,860
Adjustments for:			
Depreciation and amortisation	9, 10	3,004	2,570
Deferred and current tax charge	11	3,782	2,797
Allowance for impairment and provisions		(1,922)	15,255
Loss from disposal of property and equipment		36	-
Loss on the initial recognition of financial instruments at fair value		4,715	-
(Gain)/loss on financial assets recognition at amortised cost		(1,479)	8,260
Net change in interest accruals		7,240	(6,659)
Net gain on revaluation of derivatives		(7,154)	(100,954)
Translation differences		2,152	89,311
Cash flow from operating activities before changes in operating assets and liabilities		**22,349**	**24,440**
Net (increase)/decrease in operating assets			
Amounts due from the National Bank of the Republic of Belarus		(1,846)	(1,333)
Amounts due from credit institutions		6,352	29,281
Loans to customers		(116,239)	387,369
Other assets		1,766	2,152
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(10,257)	(24,022)
Amounts due to customers		(1,057)	(255,508)
Debt securities issued		67,064	(31,016)
Other liabilities		328	(536)
Net cash flow (used in)/from operating activities before income tax		**(31,540)**	**130,827**
Income tax paid		(4,592)	(887)
Net cash flow (used in)/from operating activities		**(36,132)**	**129,940**
Cash flows from investing activities			
Proceeds on sale and redemption of investment securities available-for-sale		7,505	65,953
Purchase of investment securities available-for-sale		(7,485)	(46,724)
Proceeds from sale and disposal of property, equipment and intangible		-	12
Purchases of property, equipment and intangible assets		(1,574)	(1,846)
Net cash flow (used in)/from investing activities		**(1,554)**	**17,395**
Effect of exchange rate changes on cash and cash equivalents		1,856	27,883
Hyperinflation effect on cash and cash equivalents		(36,570)	(75,061)
Change in cash and cash equivalents		**(72,400)**	**100,157**
Cash and cash equivalents as at 1 January	5	**202,995**	**102,838**
Cash and cash equivalents as at 31 December	5	**130,595**	**202,995**

Additional information:	*2012*	*2011*
Interest paid	(67,335)	(57,502)
Interest received	100,862	102,871

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

1. Principal activities

CJSC "BTA Bank" (the "Bank") was formed in 2002 as a joint stock company with foreign investments under the laws of the Republic of Belarus. The Bank operates under a general banking licence #17 re-issued by the National Bank of the Republic of Belarus ("NBRB") after the Bank obtained permission to attract funds from individuals and perform operations with plastic cards. In addition, the Bank has a licence for securities operations issued by the Ministry of Finance and a licence for safeguarding activities issued by the Ministry of Internal Affairs.

The Bank's registered legal address is 20, V. Khoruzhey St., Minsk, Republic of Belarus.

The Bank transfers payments, grants loans to local corporate customers (investment, working capital, import financing), to small and medium business; attracts deposits and grants loans to retail clients (car and consumer financing); performs operations with foreign currencies on behalf of its customers and on its own behalf, and performs operations with securities for liquidity and investment purposes. The Bank accepts deposits from the public and extends credit, transfers payments in the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The head office of the Bank is located in Minsk and the Bank has four branches in Minsk, Mogilev, Brest and Vitebsk.

Shareholder	***2012, %***	***2011, %***
JSC "BTA Bank" (Republic of Kazakhstan)	99.7	99.7
Others	0.3	0.3
Total	**100.0**	**100.0**

JSC "BTA Bank" (Republic of Kazakhstan) is the ultimate parent of the Bank. The government of Republic of Kazakhstan is the ultimate controlling shareholder.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with Belarusian accounting and banking legislation and related instructions ("BAS"). These financial statements are based on these BAS accounting records, as adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, premises, available-for-sale investment securities and derivative financial instruments have been measured at fair value.

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

Inflation accounting

With the effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, adjustments and reclassifications for the purposes of presentation of IFRS financial statements include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian rouble.

The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. In applying IAS 29, the Bank has used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPIs for the six year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

2. Basis of preparation (continued)

Inflation accounting (continued)

Year	*Index, %*	*Conversion factors*
2006	106.6	390.7
2007	112.1	348.6
2008	113.3	307.7
2009	110.1	279.4
2010	109.9	254.2
2011	208.7	121.8
2012	121.8	100.0

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

The application of IAS 29 results in an adjustment for the loss of purchasing power of the Belarusian rouble recorded in profit or loss. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, which results in a loss on the net monetary position. This loss is derived as the difference resulting from the restatement of non-monetary assets and liabilities, equity and items in the statement of comprehensive income. Corresponding figures for the year ended 31 December 2011 have also been restated so that they are presented in terms of the purchasing power of the Belarusian rouble as of 31 December 2012.

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS during the year:

Amendments to IFRS 7 "Financial instruments: Disclosure"

- The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Bank's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank.

- IAS 12 *Income Taxes (Amendment)* – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards *(Amendment) – Severe Hyperinflation and Removal of Fixed Dates* for First-Time Adopter.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired. Cumulative gain or loss, interest calculated using the effective interest method is recognised in the statement of comprehensive income.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRB, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income in the line "Net income from derivatives".

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued and subordinated debt. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of comprehensive income.

Leases

Finance - Bank as lessor

The Bank recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Operating - Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

Loans together with the associated allowance are written off according to the legislation when there is no realistic prospect of future repayment. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank’s internal credit grading system that considers credit risk characteristics such as product type, industry, past-due status and other relevant factors.

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

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is reclassified from other comprehensive income to the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

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.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised;
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously 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 or current effective interest rate.

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Belarus.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Republic of Belarus also has various operating taxes, that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

Property and equipment

Previously the Bank used the cost model for measurement of items of buildings after their initial recognition. In 2011 the Bank made a decision to apply revaluation model for buildings as allowed by IAS 16 "Property, plant and equipment", paragraph 31. This change in accounting policy has been applied prospectively.

Following initial recognition at cost, buildings of the Bank are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Property and equipment (continued)

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for premises and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognized in the statement of comprehensive income. A revaluation deficit is recognised in the statement of comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the fixed assets revaluation fund.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Property and equipment except buildings are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	9-100
Furniture and fixtures	1-10
Computers and office equipment	4-5
Motor vehicles	7-8

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of one to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Non-cash contributions are included into the share capital at the fair value of the contributed assets as of the contribution date.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Foreign currency translation

The financial statements are presented in Belarusian roubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the National Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The official exchange rates applied in the preparation of financial statements as of 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
USD/BYR	8,570	8,350
EUR/BYR	11,340	10,800
RUR/BYR	282	261

As of the date of authorisation of these financial statements for issue the official exchange rates were as follows: USD/BYR – 8,740.00, EUR/BYR – 11,580.00, RUR/BYR – 267.00.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments (first part)"

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015.
In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition, IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — *Special Purpose Entities*. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that adoption of IFRS 10 will have no effect on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes *IAS 31 Interests in Joint Ventures* and *SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that adoption of IFRS 11 will have no effect on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. In particular, the Bank will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will have no effect on Bank`s financial position and performance.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Bank's assets and liabilities accounted for at fair value. The Bank is currently evaluating the possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects these changes will have no effect on its financial position and performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed *IAS 28 Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects these changes will have no effect on its financial position and performance.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which involves major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The Bank expects that these amendments will have no impact on the Bank's financial position.

Amendments to IAS 1 Presentation of Financial Statements (Changes to the Presentation of Other Comprehensive Income)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

Amendments to IFRS 7 Disclosures – Offsetting Financial assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with *IAS 32 Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Banks' financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects. These amendments become effective for annual periods beginning on or after 1 January 2014.

Amendment to IFRS 1 – Government loans

These amendments require first-time adopters to apply the requirements of *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Bank.

Improvements to IFRS

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Bank:

IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property; plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in 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 the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

4. Significant accounting judgments and estimates (continued)

Revaluation of buildings

The Bank regularly reviews the value of its buildings for compliance with fair value and performs revaluation to ensure that the current carrying amount of buildings does not differ from its fair value by more than 10%. The Bank conducted an impairment test on the buildings by an independent professional appraiser as at 31 December 2011 and as at 31 December 2012. Revalued (impaired) buildings are depreciated in accordance with their remaining useful life since 1 January 2012.

Deferred income tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the temporary tax deductible differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	*2011*
Cash on hand	29,188	30,999
Current accounts with the NBRB	79,464	32,803
Current accounts with other credit institutions	14,820	52,687
Time deposits with credit institutions up to 90 days	7,123	86,506
Cash and cash equivalents	**130,595**	**202,995**

6. Amounts due from the National Bank of the Republic of Belarus

As of 31 December 2012 and 2011, amounts due from the NBRB are represented by the obligatory reserve with the National Bank of the Republic of Belarus (BYR 4,598 million and BYR 3,351 million correspondingly).

Banks are required to maintain an interest earning cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted by the credit institution. The Bank’s ability to withdraw this deposit is significantly restricted by statutory legislation.

7. Loans to customers

Loans to customers comprise:

	2012	*2011*
Corporate lending	308,890	254,072
Entrepreneurs lending	15,335	7,482
Consumer lending	84,774	118,359
Gross loans to customers	**408,999**	**379,913**
Less – Allowance for impairment	(8,469)	(33,171)
Loans to customers	**400,530**	**346,742**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

7. Loans to customers (continued)

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 2012	*Entrepreneurs lending 2012*	*Consumer lending 2012*	*Total 2012*
As of 1 January 2012	**27,462**	**76**	**5,633**	**33,171**
Charge/(reversal) for the year	(5,104)	35	(1,553)	(6,622)
Amounts written off	(11,677)	-	(847)	(12,524)
Foreign exchange effect	293	-	83	376
Gain on monetary position	(4,911)	(14)	(1,007)	(5,932)
As of 31 December 2012	**6,063**	**97**	**2,309**	**8,469**
Individual impairment	2,278	10	658	2,946
Collective impairment	3,785	87	1,651	5,523
	6,063	**97**	**2,309**	**8,469**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**26,026**	**10**	**1,090**	**27,126**

	Corporate lending 2011	*Entrepreneurs lending 2011*	*Consumer lending 2011*	*Total 2011*
As of 1 January 2011	**9,603**	**127**	**9,060**	**18,790**
Charge for the year	13,814	15	1,179	15,008
Amounts written off	(434)	-	(775)	(1,209)
Foreign exchange effect	9,483	-	890	10,373
Gain on monetary position	(5,004)	(66)	(4,721)	(9,791)
As of 31 December 2011	**27,462**	**76**	**5,633**	**33,171**
Individual impairment	25,903	-	3,764	29,667
Collective impairment	1,559	76	1,869	3,504
	27,462	**76**	**5,633**	**33,171**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**50,510**	**-**	**4,261**	**54,771**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, for the year ended 31 December 2012, comprised BYR 6,859 million (2011: BYR 11,236 million).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired as of 31 December 2012 amounts to BYR 27,893 million (2011: BYR 32,702 million).

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

7. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For corporate lending - charges over real estate properties, equipment, inventory and trade receivables, property rights, cash deposits and guarantees;
- For entrepreneurs and consumer lending - charges over vehicles and guarantees.

The Collateral Division monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Information about loans by types of collateral is presented in the following table:

	2012	*2011*
Mortgage loans	154,743	119,292
Loans secured by property and equipment	114,195	82,894
Loans secured by inventory	62,691	66,802
Loans secured by guarantees	4,244	43
Loans secured by cash	2,543	24,328
Loans secured by other types of collateral	4,450	7,419
Unsecured loans	66,133	79,135
	408,999	**379,913**
Less allowance for loan impairment	(8,469)	(33,171)
Loans to customers	**400,530**	**346,742**

Concentration of loans to customers

As of 31 December 2012, the Bank had a concentration of loans represented by BYR 169,741 million due from the ten largest third party borrowers (41% of gross loan portfolio) (2011: BYR 177,024 million or 47%). An allowance of BYR 2,301 million (2011: BYR 25,187 million) was recognised against these loans.

Loans are made principally within the Republic of Belarus in the following industry sectors:

	2012	*2011*
Trading enterprises	158,648	149,263
Manufacturing	74,710	54,908
Real estate business	31,569	21,042
Transport	26,379	12,121
Entrepreneurs	15,335	7,482
Individuals	84,774	118,359
Other	17,584	16,738
Gross loans to customers	**408,999**	**379,913**

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables as of 31 December 2012 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	14,706	2,422	17,128
Unearned future finance income on finance leases	(4,372)	(487)	(4,859)
Net investment in finance leases	**10,334**	**1,935**	**12,269**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

7. Loans to customers (continued)

Finance lease receivables (continued)

The analysis of finance lease receivables as of 31 December 2011 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	30,833	17,187	48,020
Unearned future finance income on finance leases	(13,147)	(5,936)	(19,083)
Net investment in finance leases	**17,686**	**11,251**	**28,937**

8. Investment securities available-for-sale

Securities available for sale comprise bonds of JSC ”Belgasprombank” total amounting to BYR 27,259 million as at 31 December 2012 (2011: BYR 32,344 million). The bonds were nominated in US dollars and have an interest rate amounting to 8.75% (2011: 8.75%). These bonds will be redeemed on 30 November 2015.

9. Property and equipment

Movements in property and equipment are as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost/revalued amount						
31 December 2011	**37,737**	**9,245**	**5,269**	**1,484**	**8**	**53,743**
Additions	-	501	230	-	-	731
Disposals	-	(42)	(18)	-	(8)	(68)
Revaluation	(3,510)	-	-	-	-	(3,510)
31 December 2012	**34,227**	**9,704**	**5,481**	**1,484**	**-**	**50,896**
Accumulated depreciation						
31 December 2011	**-**	**4,091**	**4,389**	**718**	**-**	**9,198**
Depreciation charge	483	1,079	514	175	-	2,251
Disposals	-	(14)	(19)	-	-	(33)
Revaluation	(483)	-	-	-	-	(483)
31 December 2012	**-**	**5,156**	**4,884**	**893**	**-**	**10,933**
Net book value:						
31 December 2011	**37,737**	**5,154**	**880**	**766**	**8**	**44,545**
31 December 2012	**34,227**	**4,548**	**597**	**591**	**-**	**39,963**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

9. Property and equipment (continued)

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost/revalued amount						
31 December 2010	**19,469**	**8,529**	**5,301**	**1,484**	**174**	**34,957**
Additions	172	564	323	-	-	1,059
Disposals	-	(14)	(355)	-	-	(369)
Transfers	-	166	-	-	(166)	-
Revaluation	18,096	-	-	-	-	18,096
31 December 2011	**37,737**	**9,245**	**5,269**	**1,484**	**8**	**53,743**
Accumulated depreciation						
31 December 2010	**1,961**	**3,047**	**4,137**	**533**	**-**	**9,678**
Depreciation charge	294	1,049	604	185	-	2,132
Disposals	-	(5)	(352)	-	-	(357)
Revaluation	(2,255)	-	-	-	-	(2,255)
31 December 2011	**-**	**4,091**	**4,389**	**718**	**-**	**9,198**
Net book value:						
31 December 2010	**17,508**	**5,482**	**1,164**	**951**	**174**	**25,279**
31 December 2011	**37,737**	**5,154**	**880**	**766**	**8**	**44,545**

The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2012. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2012	***2011***
Cost	19,630	18,106
Accumulated depreciation and impairment	(2,547)	(1,432)
Net book value	**17,083**	**16,674**

10. Intangible assets

Movements in intangible assets are as follows:

	Licences	*Computer software*	*Total*
Cost			
31 December 2011	**292**	**773**	**1,065**
Additions	1	619	620
Disposals	-	(738)	(738)
31 December 2012	**293**	**654**	**947**
Accumulated amortisation			
31 December 2011	**292**	**246**	**538**
Amortisation charge	-	753	753
Disposals	-	(738)	(738)
31 December 2012	**292**	**261**	**553**
Net book value:			
31 December 2011	**-**	**527**	**527**
31 December 2012	**1**	**393**	**394**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

10. Intangible assets (continued)

	Licences	*Computer software*	*Total*
Cost			
31 December 2010	**292**	**312**	**604**
Additions	-	787	787
Disposals	-	(326)	(326)
31 December 2011	**292**	**773**	**1,065**
Accumulated amortisation			
31 December 2010	**275**	**150**	**425**
Amortisation charge	17	421	438
Disposals	-	(325)	(325)
31 December 2011	**292**	**246**	**538**
Net book value:			
31 December 2010	**17**	**162**	**179**
31 December 2011	**-**	**527**	**527**

11. Taxation

The income tax expense comprises:

	2012	*2011*
Current tax charge	2,387	5,475
Expense/(income) on deferred tax – origination and reversal of temporary differences	1,395	(2,678)
Income tax expense	**3,782**	**2,797**

The tax rate for banks on profits other than on state securities was 18% for 2012 and 24% for 2011. The Bank calculates deferred tax assets and liabilities as of 31 December 2012 using an 18% tax rate.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

	2012	*2011*
Profit before income tax expense and loss on net monetary position	**15,757**	**16,657**
Statutory tax rate	18%	24%
Theoretical income tax expense at the statutory rate	**2,836**	**3,998**
State securities non-taxable income	(482)	(566)
Capital investments non-taxable income	-	(230)
Non-deductible expenses	113	559
Change in income tax rates	-	357
Reversal of statutory revaluation for taxation purposes and hyperinflation effect	1,315	(1,321)
Income tax expense	**3,782**	**2,797**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

11. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			
	2012	***In the statement of comprehensive income***	***In other comprehensive income***	***Hyperinflation effect***	***2011***
Tax effect of deductible temporary differences:					
Derivative financial instruments	-	(8,020)	-	(1,747)	9,767
Allowance for loan impairment	1,387	(732)	-	(462)	2,581
Property and equipment	199	(2,816)	3,015	-	-
Other assets	8	(103)	-	(24)	135
Effective interest rate adjustment on loans to customers	-	(136)	-	(30)	166
Other liabilities and provisions	-	(70)	-	(14)	84
Gross deferred tax asset	**1,594**	**(11,877)**	**3,015**	**(2,277)**	**12,733**
Tax effect of taxable temporary differences:					
Amounts due from credit institutions	960	960	-	-	-
Property and equipment	-	(2,897)	-	(631)	3,528
Amounts due to credit institutions	-	(8,660)	-	(1,886)	10,546
Other liabilities and provisions	115	115	-	-	-
Gross deferred tax liability	**1,075**	**(10,482)**	**-**	**(2,517)**	**14,074**
Deferred tax asset/(liability)	**519**	**(1,395)**	**3,015**	**240**	**(1,341)**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

11. Taxation (continued)

		Origination and reversal of temporary differences			
	2011	***In the statement of comprehensive income***	***In other comprehensive income***	***Hyperinflation effect***	***2010***
Tax effect of deductible temporary differences:					
Amounts due from credit institutions	9,767	9,767	-	-	-
Allowance for loan impairment	2,581	2,533	-	(52)	100
Other assets	135	12	-	(134)	257
Effective interest rate adjustment on loans to customers	166	(246)	-	(447)	859
Other liabilities and provisions	84	(4)	-	(94)	182
Gross deferred tax asset	**12,733**	**12,062**	**-**	**(727)**	**1,398**
Tax effect of taxable temporary differences:					
Amounts due from credit institutions	-	(190)	-	(207)	397
Property and equipment	3,528	(960)	3,472	(1,103)	2,119
Other assets	-	(12)	-	(14)	26
Amounts due to credit institutions	10,546	10,546	-	-	-
Gross deferred tax liability	**14,074**	**9,384**	**3,472**	**(1,324)**	**2,542**
Deferred tax asset/(liability)	**(1,341)**	**2,678**	**(3,472)**	**597**	**(1,144)**

12. Other assets and liabilities

Other assets comprise:

	2012	***2011***
Other prepayments	2,440	452
Collateral property for sale	2,425	-
Prepaid taxes other than income tax	1,249	309
Prepayments for property and equipment	223	-
Deferred expenses	163	374
Materials and inventory	115	69
Other	219	17
	6,834	**1,221**
Less – Allowance for impairment of other assets (Note 13)	(1,723)	(96)
Other assets	**5,111**	**1,125**

Other liabilities comprise:

	2012	***2011***
Amounts due to employees	1,119	927
Accrued expenses	763	915
Other settlements	266	348
Other liabilities	**2,148**	**2,190**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

13. Other impairment and provisions

The movements in other impairment allowances were as follows:

	Other assets
31 December 2010	**257**
Charge	247
Income from net monetary position	(408)
31 December 2011	**96**
Charge	1,644
Income from net monetary position	(17)
31 December 2012	**1,723**

Allowance for impairment of assets is deducted from the carrying amounts of the related assets.

14. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the credit risk.

	2012			*2011*		
	Notional amount	*Fair value Asset*	*Fair value Liability*	*Notional amount*	*Fair value Asset*	*Fair value Liability*
Interest rates contracts						
Forwards and swaps with NBRB	134,634	90,146	-	159,477	101,210	-
Foreign exchange contracts						
Forwards and swaps – foreign	62,886	17	(3)	58,709	-	(235)
Total derivative assets/liabilities		**90,163**	**(3)**		**101,210**	**(235)**

Foreign and domestic in the table above represent counterparties that are non-Belarusian entities or Belarusian respectively.

As of 31 December 2012, the Bank has positions in the following types of derivatives:

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	*2010*
Current accounts	163	33
Time deposits and loans	-	12,210
Amounts due to credit institutions	**163**	**12,243**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

16. Subordinated debt

As of 31 December 2012, the Bank has three subordinated loans from JSC "BTA Bank" (the Republic of Kazakhstan), nominated in US dollars:

Counteragent's name	*Interest rate*	*Maturity*	*2012*	*2011*
JSC "BTA Bank"	7.23 %	15 December 2016	68,409	78,913
JSC "BTA Bank"	7.50 %	14 November 2016	17,238	20,336
JSC "BTA Bank"	7.25 %	17 February 2016	17,238	20,336
Subordinated debt			**102,885**	**119,585**

17. Amounts due to customers

Amounts due to customers include the following:

	2012	*2011*
Current accounts	58,759	62,461
Time deposits	346,510	416,482
Amounts due to customers	**405,269**	**478,943**
Held as security against letters of credit	1,149	2,224
Held as security against guarantees and undrawn loan commitments	8,842	22,062

Amounts due to customers include accounts with the following types of customers:

	2012	*2011*
Private enterprises	150,114	169,960
Individuals	255,155	308,983
Amounts due to customers	**405,269**	**478,943**

An analysis of customer accounts by economic sector follows:

	2012	*2011*
Individuals	255,155	308,983
Trade	68,577	91,015
Manufacturing	58,262	10,643
Real estate constructions	18,308	51,131
Transport and communication	1,847	3,124
Insurance	567	1,929
Other	2,553	12,118
Amounts due to customers	**405,269**	**478,943**

Included in time deposits are deposits of individuals in the amount of BYR 238,449 million (2011: BYR 295,502 million). In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits upon demand of a depositor within 5 days. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

18. Debt securities issued

Debt securities issued consisted of the following:

	2012	*2011*
Non-documentary bonds	68,899	-
Certificates of deposit	-	37
Debt securities issued	**68,899**	**37**

Non-documentary bonds issued during 2012 comprise bonds of 9-th issue (nominated in BYR), of 10-th and 11-th issue (nominated in USD). Bonds of 9-th issue (BYR 115 million as at 31 December 2012) bear interest rate of 40% and have maturity in July 2013. Bonds of 10-th issue (BYR 17,150 million as at 31 December 2012) and of 11-th issue (BYR 51,634 million as at 31 December 2012) bear interest rates 7% and 8% correspondingly and have maturity in July and December 2013 correspondingly.

19. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares	*Nominal amount*	*Inflation adjustment*	*Total*
31 December 2011	**344**	**54,835**	**134,744**	**189,579**
Increase in share capital	-	6,500	1,206	7,706
31 December 2012	**344**	**61,335**	**135,950**	**197,285**

The number of authorised ordinary shares is 344 (2011: 344), with a nominal value per share of BYR 178.3 million (2011: BYR 159.4 million). In accordance with General Shareholders' meeting minutes as of 29 December 2011 a decision was taken to increase share capital at the development fund of the Bank expense.

The share capital of the Bank was contributed by the shareholders in Belarusian roubles and they are entitled to dividends and any capital distribution in Belarusian roubles.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in its accounts prepared in accordance with BAL. As at 31 December 2012 the statutory accounts of the Bank disclosed distributable reserves of BYR 58,124 million (2011: BYR 55,393 million) (not audited) and the amount of non-distributable reserves were BYR 3,392 million (2011: BYR 3,392 million) (not audited). Non-distributable reserves are represented by a general reserve fund, which is established to cover general banking risks, including future losses and other unforeseen risks or contingencies.

20. Commitments and contingencies

Operating environment

As an emerging market, the Republic of Belarus does not possess a well-developed business and regulatory infrastructure that would generally exist in more mature market economies. The Belarusian economy continues to display characteristics typical of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Belarus. The stability of the Belarusian economy is largely dependent on the progress of reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2011, Belarus experienced a significant macroeconomic setback. The key factors determining the economic decline were an acute deficit in current operations, reduction and limitation of external funding, absence of a significant foreign currency inflow at the beginning of 2011. These factors resulted in a significant reduction of gold and foreign currency reserves of the National Bank in the first quarter of 2011 followed by a deficit in foreign currency in the country and a significant decrease in the official exchange rate accompanied by the growth in inflation and an increase in the basic refinancing rate up to 45% as at 31 December 2011. In 2011, the rate of inflation was 108.7% (Note 2).

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

20. Commitments and contingencies (continued)

Operating environment (continued)

Significant financial support from Russia, which consisted in issuing loans in 2011 and 2012 and participating in privatization of state owned assets at the end of 2011, and an excess of the foreign trade balance contributed to a noticeable increase in the National Bank's reserves and stabilization of the macroeconomic situation in the country in 2012. The representatives of the Government and the National Bank of the Republic of Belarus believe that reserves as at 31 December 2012 were sufficient to maintain stability, avoid foreign currency deficit and satisfy the country's needs in external funds in the short- and medium-term. The official exchange rate did not significantly change in 2012. In 2012, the rate of inflation was 21.8%, the basic refinancing rate was reduced to 30% as at 31 December 2012.

While management believes that it is taking appropriate measures to support the sustainability of business in the current circumstances, further unexpected deterioration in the areas described above could negatively affect the results of operations and financial position of the Bank and its counterparties in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Belarusian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time.

It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavourable outcome.

As of 31 December 2012, management believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

Commitments and contingencies

As of 31 December, the Bank’s commitments and contingencies comprise:

	2012	*2011*
Credit related commitments		
Letters of credit	1,149	2,223
Guarantees	2,952	10,588
Undrawn loan commitments	60,605	35,245
	64,706	**48,056**
Operating lease commitments		
Not later than 1 year	3,024	2,964
Later than 1 year but not later than 5 years	7,601	995
	10,625	**3,959**
Commitments and contingencies	**75,331**	**52,015**
Less – Cash held as security against credit related commitments	(9,991)	(24,286)
Commitments and contingencies	**65,340**	**27,729**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

21. Net fee and commission income

Net fee and commission income comprises:

	2012	*2011*
Operations with customers	14,982	14,444
Currency conversion operations	2,951	6,928
Current account replenishment	221	2,577
Other	1,407	703
Fee and commission income	**19,561**	**24,652**
Currency conversion operations	(338)	(5,088)
Transactions with banks	(1,525)	(3,558)
Bank's plastic cards operations	(775)	(683)
Documentary transactions	(108)	(312)
Other	(38)	(111)
Fee and commission expense	**(2,784)**	**(9,752)**
Net fee and commission income	**16,777**	**14,900**

22. Other income

	2012	*2011*
Fines and penalties received	645	1,281
Repayment of previously written-off debt	-	2,004
Other	121	145
Total other income	**766**	**3,430**

23. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2012	*2011*
Salaries and bonuses	23,790	22,777
Social security costs	6,806	6,490
Personnel expenses	**30,596**	**29,267**
Occupancy and rent	3,817	3,655
Software expenses	3,708	3,055
Contributions to deposit insurance fund	3,383	2,906
Marketing and advertising	2,011	1,684
Repair expenses	1,606	1,528
Transportation expenses	1,395	913
Legal and consultancy	920	182
Utility expenses	838	781
Security	617	505
Audit expenses	492	588
Communications	292	336
Information services	262	256
Charity	63	132
Office supplies	50	240
Other	423	1,031
Other operating expenses	**19,877**	**17,792**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk and liquidity risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The responsibility for approval of strategy and principles of risk management, design of effective system of risk management and internal controls lies within the Supervisory Board. The Audit and Risk Committee was created to assist the Supervisory Board in executing this function. There are also separate independent bodies responsible for managing and monitoring risks.

Supervisory Board

Supervisory Board is responsible for general approach to risk management, approval of strategy and principals of risk management.

Audit and Risk Committee

The Audit and Risk Committee is responsible for monitoring and controlling the effectiveness of risk management system, developing recommendations for organizing the system of analysing and assessing the level of risk, improving the risk management system.

Management Board

The Management Board has the responsibility for the development of the risk management strategy and policies, implementing principles, frameworks, policies and limits. The Management Board is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Credit Committee

The Committee is responsible for implementation and improvement of Credit policy of the Bank, approval of decisions on loan projects and definition of their parameters. The Committee assesses the quality of cumulative claims of the Bank in respect to the assets subject to credit risk.

Assets and Liabilities Management Committee

The Committee is responsible for determining the policy of effective management of assets and liabilities, allowing to maximize profits while minimizing the risks and following prudential ratios and statutory acts. The Committee performs complex financial risk management, coordinates the activities of the Bank's branches in the field of risk management in order to reach the optimal balance of risks and profitability.

Risk Department

The Risk Department is responsible for developing the methods of risk identification, analysis and measurement, developing, realizing and controlling adherence to limits policy, implementing and performing risk management procedures. These activities are performed in order to ensure independent control process. The Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. This department also presents reports on risk levels to the Management Board and Supervisory board of the Bank.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management (continued)

Introduction (continued)

Financial Controlling Department

Financial Controlling Department is responsible for organization of effective interest rate management system, that enables to maintain this type of risk at the acceptable level at which the Bank's financial stability, creditors and depositors interests are not being threatened. The Department is also responsible for the Bank's liquidity which is based on balance between assets and liabilities, maturity match between assets placed and resources attracted, the Department establishes principals and methods of the Bank's liquidity management. The Department provides Management and Supervisory Boards with reports on level of interest and liquidity risks.

Internal Audit

Risk management processes throughout the Bank are audited annually by the Department of Internal Audit that examines both the adequacy of the procedures and the Bank's compliance with the procedures, submits proposals on improvement of the risk management system and internal controls. The Department of Internal Audit presents the results of all assessments to the Management Board of the Bank, and reports its findings and recommendations to the Audit and Risk Committee.

Risk measurement and reporting systems

The Bank's risks are measured using scenario methods that enable to assess the level of risk in different circumstances.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure when capital adequacy is calculated.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Audit and Risk Committee, Management Board, Assets and Liabilities Management Committee, Credit Committee. The report includes aggregate credit exposure, liquidity ratios, levels of operational, interest and currency risks and risk profile changes. Appropriateness of the allowance for credit losses is assessed on a quarterly basis. The Supervisory Board (Audit and Risk Committee) receives a comprehensive report on loan portfolio and the Bank's financial position once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses the system of measures and limits stipulated by the local statutory acts to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see above for more detail).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Main stages of risk management:

- identification of risks;
- risk measurement – quantitative description of identified risks (probability and amount of possible losses);
- choice of risk management methods while assessing their comparative effectiveness;
- decision-making and direct impact on the risk;
- monitoring of the accepted credit risk and control over the procedures being used.

Credit risk control in relation to borrowers (other than banks acting as counterparties to the Bank) includes the following:

- monitoring of issued credit instruments by the corresponding structural units of the Bank;
- classification of assets and contingent liabilities, and creation of special allowances for covering possible losses in relation to assets and contingent liabilities.

Risk Department performs monthly loan portfolio analysis the results of which are communicated to Credit Committee, Management Board (quarterly) and Supervisory Board (quarterly).

Control of the accepted credit risk level in relation to amounts placed within banks acting as counteragents to the Bank includes the following:

- analysis of negative financial and non-financial information while applying previously set limits (performed by the Risk Department);
- routine and subsequent control over compliance with the set limits (sublimits) for banks acting as counterparties to the Bank by executive units – units directly operating within the set limits (sublimits), and by the Risk Department.

The results of analysis serve as a basis for developing suggestions to units working with customers with regard to recommended parameters for clients attracted for credit services. Additional parameters limiting portfolio concentration of the Bank can be developed based on the analysis of the portfolio.

All activities performed by credit units of the Bank in the course of monitoring of current loans are aimed at identifying problems at the earliest stage possible.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit risk classification system provides assigning a risk rating to each counterparty. Risk ratings are subject to regular revision.

The credit quality control system allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take necessary action.

The Bank receives collateral and guarantees from entities and individuals in relation to most loans, however, a certain part of lending is attributable to loans to individuals in regard to which obtaining collateral or guarantee is impracticable. Such risks are monitored on a regular basis.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management (continued)

Credit risk (continued)

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

High grade includes the Bank's highest quality financial assets. The possibility of deterioration is generally considered remote. Financial performance has been strong and good. All factors are favourable and participation potential or ability to refinance is considered good. Financial history shows good liquidity and cash flow with good basic trends, or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished.

Standard grade includes good quality financial assets. The possibility of deterioration is generally considered remote but there is some amount of uncertainty. These assets are neither overdue nor any other significant signs of impairment are identified. Financial performance has been strong and good but it can deteriorate as a result of some possible factors in the future. Financial history shows good liquidity and cash flow with good basic trends, or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished.

Substandard grade includes normal quality financial assets. The possibility of deterioration is generally considered remote but there is identifiable amount of uncertainty. These assets are not overdue yet but some insignificant signs of impairment are identified. Financial performance has been strong and good but there is a likelihood that it can deteriorate as a result of some probable factors in the future. Financial history generally shows good liquidity and cash flow with good basic trends, however some overdue amounts could happen in the past or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished. The Bank considers that it holds no assets under substandard grade as of 31 December 2012 and 2011.

		Neither past due not impaired				
	Notes	***High grade 2012***	***Standard grade 2012***	***Past due but not impaired 2012***	***Individually impaired 2012***	***Total 2012***
Cash and cash equivalents except cash on hand	5	101,407	-	-	-	101,407
Due from NBRB	6	4,598	-	-	-	4,598
Due from credit institutions		-	-	-	-	-
Derivative financial assets	14	90,163	-	-	-	90,163
Loans to customers	7					
Corporate lending		282,477	337	50	26,026	308,890
Entrepreneurs lending		15,325	-	-	10	15,335
Consumer lending		83,024	317	343	1,090	84,774
		380,826	**654**	**393**	**27,126**	**408,999**
Investment securities available-for-sale	9	27,259	-	-	-	**27,259**
Total		**604,253**	**654**	**393**	**27,126**	**632,426**

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management (continued)

Credit risk (continued)

	Notes	Neither past due nor impaired: High grade 2011	Neither past due nor impaired: Standard grade 2011	Past due but not impaired 2011	Individually impaired 2011	Total 2011
Cash and cash equivalents except cash on hand	5	171,996	-	-	-	171,996
Due from NBRB	6	3,351	-	-	-	3,351
Due from credit institutions		7,254	-	-	-	7,254
Derivative financial assets	14	101,210	-	-	-	101,210
Loans to customers	7					
Corporate lending		201,782	1,780	-	50,510	254,072
Entrepreneurs lending		7,482	-	-	-	7,482
Consumer lending		112,938	141	1,019	4,261	**118,359**
		322,202	**1,921**	**1,019**	**54,771**	**379,913**
Investment securities available-for-sale	9	32,344	-	-	-	32,344
Total		**638,357**	**1,921**	**1,019**	**54,771**	**696,068**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

Ageing analysis of past due but not impaired loans by class of financial assets

	Less than 30 days 2012
Loans to customers	50
Consumer lending	343
Total	**393**

	Less than 30 days 2011
Loans to customers	-
Consumer lending	1,019
Total	**1,019**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 5 days for legal entities and 30 days for individuals or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the indicators of financial activity, their changes in the period of loan servicing, evaluation of quality of loan servicing, the realisable value of collateral. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management (continued)

Credit risk (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred (5 days for corporate clients and 30 days for individuals) and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the NBRB. As at 31 December, these ratios were as follows:

	NBRB required minimum ratio value, %	*2012, %*	*2011, %*
"Current Liquidity Ratio" (assets receivable or realisable within 30 days / liabilities repayable within 30 days)	70	303	654
"Short-Term Liquidity Ratio" (assets receivable or realisable within one year / liabilities repayable within one year)	100	370	1,140
"Quick Liquidity Ratio" (assets on demand / liabilities on demand)	20	510	798

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations except for trading derivatives which are shown at fair value in a separate column and gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities As of 31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	163				163
Subordinated debt	1,883	5,649	123,397	-	130,929
Derivative financial instruments					
- Contractual amounts payable	63,125	17,061	33,932	-	114,118
- Contractual amounts receivable	(63,155)	(43,096)	(92,220)	-	(198,471)
Amounts due to customers	111,803	188,355	144,242	-	444,400
Debt securities issued	1,531	72,204	-	-	73,735
Other liabilities	776	-	-	-	776
Total undiscounted financial liabilities	**116,126**	**240,173**	**209,351**	**-**	**565,650**

Financial liabilities As of 31 December 2011	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	12,259	-	-	-	12,259
Subordinated debt	2,202	6,605	153,041	-	161,848
Derivative financial instruments	-	-	-	-	-
- Contractual amounts payable	58,780	-	62,098	-	120,878
- Contractual amounts receivable	(58,709)	-	(159,477)	-	(218,186)
Amounts due to customers	102,312	255,450	181,389	-	539,151
Debt securities issued	37	-	-	-	37
Other liabilities	2,179	-	-	-	2,179
Total undiscounted financial liabilities	**119,060**	**262,055**	**237,051**	**-**	**618,166**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The maturity analysis does not reflect the historical stability of current accounts and deposits. Their liquidation has historically taken place over a longer period than indicated in the tables above.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2012	27,795	31,800	15,736	-	**75,331**
2011	2,247	21,411	28,357	-	**52,015**

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The exposures to market risk are managed and monitored using different sensitivity analysis techniques. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Market risk – Non - trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.
The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management (continued)

Currency	Increase in % 2012	Sensitivity of net interest income 2012	Sensitivity of equity less effect on profit and loss 2012
BYR	5.00%	1,632	-
EUR	1.00%	(787)	-
USD	1.00%	(1,280)	271

Currency	Decrease in % 2012	Sensitivity of net interest income 2012	Sensitivity of equity less effect on profit and loss 2012
BYR	10.00%	(3,877)	-
EUR	1.00%	814	-
USD	1.00%	1,318	(271)

Currency	Increase in % 2011	Sensitivity of net interest income 2011	Sensitivity of equity less effect on profit and loss 2011
BYR	17.30%	4,302	-
EUR	0.15%	(153)	-
USD	0.55%	(955)	49

Currency	Decrease in % 2011	Sensitivity of net interest income 2011	Sensitivity of equity less effect on profit and loss 2011
BYR	37.50%	(20,084)	-
EUR	0.15%	156	-
USD	0.15%	234	(49)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Assets and Liabilities Management Committee has set limits on positions by currency based on the NBRB regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belorussian rouble, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	Increase in currency rate in % 2012	Effect on profit before tax 2012	Increase in currency rate in % 2011	Effect on profit before tax 2011
USD	34.01	(12,432)	31,64	5,124
EUR	32.08	140	34,02	(22,006)

Currency	Decrease in currency rate in % 2012	Effect on profit before tax 2012	Decrease in currency rate in % 2011	Effect on profit before tax 2011
USD	34.01	12,432	31.64	(5,124)
EUR	32.08	(140)	34.02	22,006

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

24. Risk management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

25. Fair values of financial instruments

Fair value of financial assets carried at fair value

The Bank uses the following valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As of 31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial asset on swap deals	-	17	90,146	90,163
Investment securities – available-for-sale	-	27,259	-	27,259
	-	**27,276**	**90,146**	**117,422**
Financial liabilities				
Derivative financial liability on swap deals	-	(3)	-	(3)
	-	**(3)**	**-**	**(3)**

As of 31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial asset on swap deals	-	-	101,210	101,210
Investment securities – available-for-sale	-	32,344	-	32,344
	-	**32,344**	**101,210**	**133,554**
Financial liabilities				
Derivative financial liability on swap deals	-	(235)	-	(235)
Derivative financial liability on forward deals	-	-	-	-
	-	**(235)**	**-**	**(235)**

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated currency swaps with the National Bank of the Republic of Belarus. These derivatives are valued using the discounting cash flows model. The model incorporates various non-observable assumptions, which include market rate volatilities.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

25. Fair values of financial instruments (continued)

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2012	***Total gains recorded in other comprehensive income – Net income from derivatives***	***At 31 December 2012***
Financial assets			
Derivative financial instruments	101,210	11,064	90,146
Total net level 3 financial assets	**101,210**	**11,064**	**90,146**

Movements in level 3 financial instruments measured at fair value (continued)

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2012			***2011***		
	Realised gains	***Unrealised gains***	***Total***	***Realised gains***	***Unrealised gains***	***Total***
Total gains included in the statement of comprehensive income	-	11,064	11,064	-	100,725	100,725

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	31 December 2012		***31 December 2011***	
	Carrying amount	***Effect of reasonably possible alternative assumptions***	***Carrying amount***	***Effect of reasonably possible alternative assumptions***
Financial assets				
Derivative financial instruments	90,146	(1,397)	101,210	(3,461)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows: the Bank adjusted the interest rate used to calculate discounted cash inflows in Belarusian roubles. The adjustment made was to decrease the interest rate used by 10%.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

25. Fair values of financial instruments (continued)

	Carrying value 2012	***Fair value 2012***	***Unrecognised gain/(loss) 2012***	***Carrying value 2011***	***Fair value 2011***	***Unrecognised gain/(loss) 2011***
Financial assets						
Cash and cash equivalents	130,595	130,595	-	202,995	202,995	-
Amounts due from NBRB	4,598	4,598	-	3,351	3,351	-
Amounts due from credit institutions	-	-	-	7,254	7,254	-
Loans to customers	400,530	400,530	-	346,742	346,742	-
Financial liabilities						
Amounts due to credit institutions	163	163	-	12,243	12,243	-
Amounts due to customers	405,269	405,269	-	478,943	478,943	-
Subordinated debt	102,885	102,885	-	119,585	119,585	-
Debt securities issued	68,899	68,899	-	37	37	-
Total unrecognised change in unrealised fair value			**-**			**-**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. Such financial assets and liabilities are cash and cash equivalents, amounts due from the NBRB, amounts due from credit institutions, amounts due to credit institutions, debt securities issued. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed and variable rate financial instruments

For quoted debt instruments, the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

26. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 24 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2012			*2011*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	130,595	-	130,595	202,995	-	202,995
Amounts due from NBRB	-	4,598	4,598	-	3,351	3,351
Amounts due from credit institutions	-	-	-	7,254	-	7,254
Derivative financial asset	27,765	62,398	90,163	-	101,210	101,210
Loans to customers	268,950	131,580	400,530	245,905	100,837	346,742
Investment securities available-for-sale	-	27,259	27,259	-	32,344	32,344
Property and equipment	382	39,581	39,963	144	44,401	44,545
Intangible assets	350	44	394	527	-	527
Deferred tax asset	-	519	519	-	-	-
Current income tax asset	720	-	720	-	-	-
Other assets	3,223	1,888	5,111	1,125	-	1,125
Total	**431,985**	**267,867**	**699,852**	**457,950**	**282,143**	**740,093**
Amounts due to credit institutions	163	-	163	12,243	-	12,243
Derivative financial liability	3	-	3	235	-	235
Amounts due to customers	269,980	135,289	405,269	303,756	175,187	478,943
Debt securities issued	68,899	-	68,899	37	-	37
Current income tax liability	-	-	-	1,911	-	1,911
Deferred tax liability	-	-	-	-	1,341	1,341
Other liabilities	2,148	-	2,148	2,190	-	2,190
Subordinated debt	-	102,885	102,885	-	119,585	119,585
Total	**341,193**	**238,174**	**579,367**	**320,372**	**296,113**	**616,485**
Net	**90,792**	**29,693**	**120,485**	**137,578**	**(13,970)**	**123,608**

The maturity analysis above does not reflect the historical stability of current accounts and time deposits which are included in amounts due to customers. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due in up to one year.

In accordance with the Belarusian Banking Code, the Bank is obliged to repay time deposits within five days upon demand of a depositor. However, the Bank does not expect that many customers will request repayment at original maturity. These balances are therefore included in accordance with their contractual maturity.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

27. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.
The volumes of related party transactions, outstanding balances at the year-end, and related expense and income for the year are as follows:

	2012			*2011*		
	Shareholders	*Companies under common control*	*Key management personnel*	*Shareholders*	*Companies under common control*	*Key management personnel*
Cash and cash equivalents	109	-	-	1,782	-	-
Amounts due from credit institutions at 1 January, gross	-	7,254	-	-	5,564	-
Loans issued during the year	-	-	-	-	-	-
Loan repayments during the year	-	(5,753)	-	-	-	-
Other changes	-	(204)	-	-	-	-
Effect of net monetary position	-	(1,297)	-	-	1,690	-
Amounts due from credit institutions at 31 December, gross	-	-	-	-	7,254	-
Less: allowance for impairment at 31 December	-	-	-	-	-	-
Amounts due from credit institutions at 31 December, net	-	-	-	-	7,254	-
Loans outstanding at 1 January, gross	-	-	610	-	-	891
Loans issued during the year	-	-	1	-	-	3,568
Loan repayments during the year	-	-	(59)	-	-	(3,318)
Other changes	-	-	(334)	-	-	-
Effect of net monetary position	-	-	(109)	-	-	(531)
Loans outstanding at 31 December, gross	-	-	109	-	-	610
Less: allowance for impairment at 31 December	-	-	(2)	-	-	(10)
Loans outstanding at 31 December, net	-	-	107	-	-	600

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

27. Related party disclosures (continued)

	2012			2011		
	Shareholders	*Companies under common control*	*Key management personnel*	*Shareholders*	*Companies under common control*	*Key management personnel*
Subordinated debt at 1 January	119,585	-	-	91,610	-	-
Subordinated debt received during the year	-	-	-	-	-	-
Subordinated debt repaid during the year	-	-	-	(538)	-	-
Other changes	4,685	-	-	-	-	-
Effect of net monetary position	(21,385)	-	-	28,513	-	-
Subordinated debt at 31 December	102,885	-	-	119,585	-	-
Deposits at 1 January	-	-	1,649	-	5	543
Deposits received during the year	-	-	4,537	-	175	6,672
Deposits repaid during the year	-	-	(3,422)	-	(180)	(5,545)
Other changes	-	-	(1,352)	-	-	-
Effect of net monetary position	-	-	(294)	-	-	(21)
Deposits at 31 December	-	-	1,118	-	-	1,649
Undrawn loan commitments	-	-	99	-	-	145
Interest income	-	-	1	-	-	163
Interest expense	7,210	-	24	8,861	-	84
Commission income	-	-	-	-	-	1
Commission expenses	4	-	-	55	-	-

Compensation of key management personnel was comprised of the following:

	2012	*2011*
Salaries and other short-term benefits	2,574	1,889
Social security costs	532	414
Total key management compensation	**3,106**	**2,303**

Key management consists of six employees of the Bank as at 31 December 2012.

28. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBRB in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements, except for requirement of minimal amount of normative capital for acting bank, entitled to attract funds of individuals who are not individual entrepreneurs in deposits and/or open and management of bank accounts of such individuals. In accordance with NBRB letter as at 22 February 2013 the Bank obtained direction to rectify the breach of the requirement of minimal amount of normative capital by 1 January 2014. The plan of growing –up of the normative capital of the Bank is worked out, which suggests the following options to rectify the breach: transfer of existing subordinate loans to the share capital of the Bank; direct investments into the share capital or input of non-monetary contribution to the share capital. The Bank has intention and opportunity to rectify the breach by 1 January 2014.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2012)

28. Capital adequacy (continued)

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBRB capital adequacy ratio

The NBRB requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed based on BAS. As of 31 December 2012 and 2011, the Bank's capital adequacy ratio on this basis was as follows:

	2012	***2011***
Main capital	72,994	71,434
Additional capital	72,994	71,434
Total capital	**145,988**	**142,868**
Risk weighted assets	**581,215**	**349,129**
Capital adequacy ratio	25.1%	40.9%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2012 and 2011, comprised:

	2012	***2011***
Tier 1 capital	106,076	101,503
Tier 2 capital	53,038	50,752
Total capital	**159,114**	**152,255**
Risk weighted assets	**376,896**	**331,205**
Tier 1 capital ratio	28.1%	30.6%
Total capital ratio	14.1%	15.4%

29. Events after the reporting period

On 13 March, 17 April, 15 May, 10 June 2012 the National Bank decreased refinance rate which amounted at 23.5% as of the date of these financial statements issue.

On 28 March 2013 the Shareholders Meeting took place, where the following issues were approved: the report of Revision commission on results of 2012, fixed assets revaluation, the annual BAS financial statements, profit distribution, members of the Supervisory Board and Revision commission. The decision not to declare and not to pay out dividends has been taken.