Closed joint-stock company "Minsk Transit Bank"

IFRS Financial Statements

Year ended 31 December 2012
Together with Independent Auditors' Report

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Independent auditors' report

To the Shareholders and Supervisory Board of Closed joint-stock company "Minsk Transit Bank"

We have audited the accompanying financial statements of Closed joint-stock company "Minsk Transit Bank" (hereinafter the "Bank"), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement 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 of the Bank 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Ernst & Young LLC

15 March 2013

Statement of financial position
As of 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	834,454	700,043
Amounts due from credit institutions	6	18,032	44,433
Derivative financial assets	7	26,420	97,464
Loans to customers	8	2,187,932	1,105,300
Investment securities available-for-sale	9	92,748	131,784
Property and equipment	10	64,300	50,081
Intangible assets	11	18,877	14,398
Current income tax assets		-	2,006
Deferred income tax assets	12	611	-
Other assets	14	28,379	8,869
Total assets		**3,271,753**	**2,154,378**
Liabilities			
Amounts due to credit institutions	15	154,178	19,194
Derivative financial liabilities	7	59	-
Amounts due to customers	16	2,384,827	1,376,414
Debt securities issued	17	96,767	42,838
Other borrowed funds	18	208,966	329,202
Current income tax liabilities		231	-
Deferred income tax liabilities	12	-	45
Provisions	13	1,813	3,152
Other liabilities	14	19,514	12,799
Subordinated debt	19	80,344	95,346
Total liabilities		**2,946,699**	**1,878,990**
Equity	20		
Share capital		421,212	421,212
Accumulated deficit		(95,121)	(143,828)
Reserve for unrealized losses on investment securities available-for-sale		(1,037)	(1,996)
Total equity		**325,054**	**275,388**
Total equity and liabilities		**3,271,753**	**2,154,378**

Signed and authorised for release on behalf of the Management Board of CJSC "MTBank"

A. K. Zhyshkevich — Chairman of the Management Board

D. P. Shidlovich — Finance Director

15 March 2013

The accompanying notes on pages 6 to 53 are an integral part of these financial statements.

Income statement
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		443,223	241,440
Amounts due from credit institutions		34,441	44,800
Investment securities available-for-sale		31,421	15,746
		509,085	**301,986**
Interest expense			
Amounts due to customers		(199,281)	(88,082)
Amounts due to credit institutions		(18,094)	(10,922)
Other borrowed funds		(15,304)	(16,377)
Debt securities issued		(13,706)	(13,919)
Subordinated debt		(5,774)	(8,943)
		(252,159)	**(138,243)**
Net interest income		**256,926**	**163,744**
Allowance for loan impairment	8	(75,772)	(19,068)
Net interest income after allowance for loan impairment		**181,154**	**144,676**
Fee and commission income	23	145,473	107,102
Fee and commission expense	23	(22,682)	(33,571)
Net gains/(losses) from investment securities available-for-sale		(4,675)	(1,172)
Net gains from foreign currencies	22	37,640	63,459
Other income	24	9,296	9,798
Non-interest expense		**165,052**	**145,616**
Personnel expenses	25	(110,724)	(86,344)
Depreciation and amortization	10, 11	(15,002)	(8,198)
Other operating expenses	25	(102,883)	(72,808)
Other impairment and provisions	13	1,295	(285)
Non-interest expense		**(227,314)**	**(167,635)**
Profit before loss on net monetary position and income tax expense		**118,892**	**122,657**
Loss on net monetary position		(54,090)	(70,037)
Profit before income tax expense		**64,802**	**52,620**
Income tax expense	12	(16,095)	(31,483)
Profit for the year		**48,707**	**21,137**

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 г.*	*2011 г.*
Profit for the year		**48,707**	**21,137**
Other comprehensive income			
Realized losses on investment securities available-for-sale reclassified to the income statement		287	398
Unrealized gains/(losses) on investment securities available-for-sale		672	(350)
Other comprehensive income for the year		**959**	**48**
Total comprehensive income for the year		**49,666**	**21,185**

The accompanying notes on pages 6 to 53 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)

	Share capital	*Accumulated deficit*	*Reserve for unrealised gains/(losses) on investment securities available-for-sale*	*Total*
31 December 2010	**351,311**	**(57,068)**	**(2,044)**	**292,199**
Profit for the year	-	21,137	-	**21,137**
Other comprehensive income for the year	-	-	48	**48**
Total comprehensive income for the year	-	21,137	48	**21,185**
Reduction of capital relating to early repayment of subordinated loan from parent at below market rate (Note 20)	-	(7,824)	-	**(7,824)**
Issue of share capital (Note 20)	69,901	-	-	**69,901**
Dividends (Note 20)	-	(100,073)	-	**(100,073)**
31 December 2011	**421,212**	**(143,828)**	**(1,996)**	**275,388**
Profit for the year	-	48,707	-	**48,707**
Other comprehensive income for the year		-	959	**959**
Total comprehensive income for the year	-	48,707	959	**49,666**
31 December 2012	**421,212**	**(95,121)**	**(1,037)**	**325,054**

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			
Interest received		458,321	276,255
Interest paid		(244,566)	(134,214)
Fees and commissions received		145,107	106,562
Fees and commissions paid		(22,631)	(33,579)
Realised gains less losses from dealing in foreign currencies		92,181	141,339
Other income received		8,050	9,370
Personnel expenses paid		(107,459)	(83,273)
Other operating expenses paid		(102,808)	(71,765)
Cash flows from operating activities before changes in operating assets and liabilities		**226,195**	**210,695**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		16,950	7,433
Loans to customers		(1,272,475)	(212,604)
Investment securities available-for-sale		14,342	19,063
Other assets		(10,459)	14,141
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		132,999	(64,357)
Amounts due to customers		1,212,549	476,905
Other liabilities		5,802	(36,052)
Net cash flows from operating activities before income tax		**325,903**	**415,224**
Income tax paid		(14,865)	(31,008)
Net cash from operating activities		**311,038**	**384,216**
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	10,11,14	(40,445)	(35,177)
Proceeds from sale of property and equipment and intangible assets		14	474
Net cash used in investing activities		**(40,431)**	**(34,703)**
Cash flows from financing activities			
Proceeds from issue of debt securities		245,699	241,694
Redemption of debt securities issued		(184,250)	(231,326)
Proceeds from other borrowed funds		70,408	71,497
Repayment of other borrowed funds		(140,174)	(57,066)
Redemption of subordinated loan		-	(69,112)
Proceeds from issue of share capital		-	69,901
Dividends paid		-	(62,312)
Net cash used in financing activities		**(8,317)**	**(36,724)**
Monetary loss on cash and cash equivalents		(136,327)	(305,965)
Effect of exchange rate changes on cash and cash equivalents		8,448	193,817
Net increase in cash and cash equivalents		**134,411**	**200,641**
Cash and cash equivalents, 1 January	5	**700,043**	**499,402**
Cash and cash equivalents, 31 December	5	**834,454**	**700,043**

The accompanying notes on pages 6 to 53 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 unless otherwise stated)

1. Principal activities

Closed joint-stock company "Minsk Transit Bank" (hereinafter - CJSC "MTBank" or the "Bank") was registered under the laws of the Republic of Belarus by the National Bank of the Republic of Belarus (hereinafter - the "National Bank") on 14 March 1994 as a closed joint stock commercial bank with foreign investment. The Bank's activities are regulated by the National Bank. The Bank operates under banking license No. 13 issued by the National Bank of the Republic of Belarus on 22 December 2012. The Bank also possesses permit (license) No. 02200/5200-1246-1112 for securities operations issued by the Ministry of Finance of the Republic of Belarus (extended until 29 July 2022 based on Decision No. 145 of 16 May 2012).

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. Its head office is in Minsk. The Bank's registered legal address is 6-a Partizansky Avenue, Minsk, Republic of Belarus. The Bank is a member of the national deposit insurance system.

As of 31 December 2012, the Bank's structure includes the Head Office, 6 centres for banking services and 47 outlets located in Minsk, Brest, Gomel, Vitebsk, Mogilev, Molodechno, Zhodino, Bobruisk and Baranovichi.

As of 31 December 2012 and 2011, the Bank had neither subsidiaries nor associates.

As of 31 December 2012 and 2011, the Bank's outstanding share capital was owned by the following shareholders:

Shareholder	**%**
MTB Investments Holdings Limited, Cyprus	98.97
Other	1.03
Total	**100.00**

As at 31 December 2012, the Bank's largest shareholders were three individuals: Oleg Ilgizovich Husaenov (Russia), Sergey Nikolaevich Savitsky (Russia) and Igor Vyacheslavovich Malgin (Russia). They own, directly or indirectly, in aggregate over 64% of the Bank's share capital (2011 – over 64%). None of these individuals ultimately owned more than 50% of the Bank's share capital in 2012 and 2011.

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 Belarusian roubles in accordance with Belarusian accounting and banking legislation and related instructions ("BAS"). These financial statements are based on the Bank's 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, available-for-sale securities and derivative financial instruments have been measured at fair value.

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

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

2. Basis of preparation (continued)

Inflation accounting

With 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*. 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 National Statistical Committee of the Republic of Belarus. The CPIs for the seven year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

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 income statement 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 the income statement. 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. The 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: Disclosures“
The amendment was issued in October 2010 and is 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 affected disclosure only and had 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 Adopters.

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

3. Summary of accounting policies (continued)

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.

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 marketplace.

'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 income statement. 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 income statement 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 income statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the income statement when the investments are impaired, as well as through the amortisation process.

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 income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

3. Summary of accounting policies (continued)

Financial assets (continued)

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 at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the income statement. However, interest calculated using the effective interest method is recognised in the income statement. In the statement of cash flows, cash flows from available-for-sale financial assets are included in cash flows from operating activities because these are numerous and regular transactions.

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 National Bank, 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.

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 income statement. The obligation to return them is recorded at fair value as a trading liability.

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

3. Summary of accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including foreign currency forwards and swaps. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or 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 income statement as net gains/(losses) from foreign currencies dealing.

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 other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement 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 income statement.

Leases

i. 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.

ii. 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.

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 indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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 income statement. 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 decision of the Bank's Management Board when there is no realistic prospect of future recovery. 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 future write-off is later recovered, the recovery is credited to the income statement.

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 losses incurred by the Bank 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 unless otherwise stated)

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 income statement – is reclassified from other comprehensive income to the income statement. Impairment losses on equity investments are not reversed through the income statement; 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 income statement. 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 income statement, the impairment loss is reversed through the income statement.

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 recognized in the statement of financial position.
- 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 recognises 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.

Derecognition of financial assets and liabilities

Financial assets

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

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3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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.

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 income statement.

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 income statement. The premium received is recognised in the income statement 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.

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

3. Summary of accounting policies (continued)

Taxation (continued)

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.

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

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, as adjusted for hyperinflation. 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	7-100
Computers and office equipment	5-10
Vehicles	6-9
Furniture and fixtures	5-50

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 capitalisation.

Intangible assets

Intangible assets include computer software and licenses for software and activities that must be licensed.

Intangible assets acquired separately are measured on initial recognition at cost, as adjusted for hyperinflation. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets have finite useful lives and are amortised over the periods of 3 to 10 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.

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 trading or 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. 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 income statement as net gains from foreign currencies. 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.

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

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

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

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

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

As of the date of authorisation of these financial statements for issue the official exchange rates were as follows: USD/BYR – 8,620.00, EUR/BYR – 11,170.00, RUR/BYR – 280.00.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments
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 *Consolidated Financial Statements* 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. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Early application is permitted. However, the standard will have no impact on the Bank's financial position and performance.

IFRS 11 Joint Arrangements
IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities 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. Early application is permitted. However, the standard will have no impact on the Bank's financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities
The standard 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 for such entities. 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 impact on the Bank's financial position and performance.

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. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of IFRS 13 may have effect on the measurement of the Bank's assets and liabilities accounted for at fair value. Currently, the Bank evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

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3. Significant accounting policies (continued)

Future changes in accounting policies (continued)

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. This amendment will have no impact on the financial position or performance of the Bank.

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 reporting periods beginning on or after 1 January 2013 and will have no impact on the financial position or performance of the Bank.

Amendments to IAS 19 Employee Benefits
The amendment to IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The amendment 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, the amendments will limit the changes in net pension assets (liabilities) recognized in profit or loss to net interest income (expense) and service costs. The amendment will have no impact on the Bank's financial position or performance.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments 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 the 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 recognized 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 Bank's financial position or performance. The amendments 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.

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.

The amendments become effective for annual periods beginning on or after 1 January 2014.

Amendments 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's financial statements.

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3. Significant accounting policies (continued)

Future changes in accounting policies (continued)

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 made the following judgments and made estimates in determining the amounts recognized in the financial statements. The most significant uses 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, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced 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 experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

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5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	*2011*
Cash on hand	216,418	126,168
Current accounts with the National Bank of the Republic of Belarus	374,978	87,448
Current accounts with other credit institutions	109,437	134,733
Time deposits with credit institutions up to 90 days	133,621	170,262
Reverse repurchase agreements with credit institutions up to 90 days	-	181,432
Cash and cash equivalents	**834,454**	**700,043**

As of 31 December 2012, current accounts with credit institutions include BYR 23,350 million (2011 – BYR 98,139 million) placed with 4 banks in the member countries of Organisation for Economic Co-operation and Development (hereinafter – "OECD").

As of 31 December 2011, the Bank entered into reverse repurchase agreements with five Belarusian banks. The subject of these agreements are debt securities issued by Belarusian companies with a fair value of BYR 181,152 million.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	*2011*
Time deposits for more than 90 days	295	35,341
Obligatory reserves with the National Bank of the Republic of Belarus	17,737	9,092
Amounts due from credit institutions	**18,032**	**44,433**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the National Bank of the Republic of Belarus, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

7. Derivative financial instruments

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 values***		***Notional amount***	***Fair values***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign exchange contracts						
Swaps – domestic with the National Bank of the Republic of Belarus and other Belarusian banks	105,572	26,420	(59)	173,497	97,464	-
Total derivative assets/liabilities	**105,572**	**26,420**	**(59)**	**173,497**	**97,464**	**-**

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7. Derivative financial instruments (continued)

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

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.

Included under this heading are derivatives which do not meet IAS 39 hedging requirements.

8. Loans to customers

Loans to customers comprise:

	2012	***2011***
Loans to legal entities	1,339,474	856,988
Loans to individuals	945,103	300,352
Finance leases	15,914	3,435
Gross loans to customers	2,300,491	1,160,775
Less - Allowance for impairment	(112,559)	(55,475)
Loans to customers	**2,187,932**	**1,105,300**

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

	Corporate banking 2012	***Retail banking 2012***	***Total 2012***
At 1 January 2012	33,786	21,689	**55,475**
Monetary effect	(4,815)	(2,897)	**(7,712)**
Amounts written off	(6,884)	(5,508)	**(12,392)**
Translation differences	1,385	31	**1,416**
Charge for the year	26,961	48,811	**75,772**
At 31 December 2012	**50,433**	**62,126**	**112,559**
Individual impairment	48,268	20,519	**68,787**
Collective impairment	2,165	41,607	**43,772**
	50,433	**62,126**	**112,559**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**548,825**	**20,519**	**569,344**

	Corporate banking 2011	***Retail banking 2011***	***Total 2011***
At 1 January 2011	45,029	21,980	**67,009**
Monetary effect	(23,727)	(6,727)	**(30,454)**
Amounts written off	(6,526)	(13,570)	**(20,096)**
Translation differences	12,410	7,538	**19,948**
Charge for the year	6,600	12,468	**19,068**
At 31 December 2011	**33,786**	**21,689**	**55,475**
Individual impairment	28,074	15,324	**43,398**
Collective impairment	5,712	6,365	**12,077**
	33,786	**21,689**	**55,475**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**349,721**	**15,324**	**365,045**

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8. Loans to customers (continued)

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 29,139 million (2011 – BYR 21,903 million).

Collateral and other credit enhancements

The amount and type of collateral required by the Bank 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 securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables,
- For car lending, pledge of financed car.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management 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.

Concentration of loans to customers

As of 31 December 2012, the Bank had a concentration of loans represented by BYR 257,591 million due from the ten largest third party borrowers, or 11% of gross loan portfolio (2011 – BYR 228,678 million or 20%). An allowance of BYR 23,075 million (2011 - BYR 10,325 million) was recognised against these loans.

Loans have been extended to the following types of customers:

	2012	***2011***
Private companies	1,298,507	834,127
State companies	56,881	26,296
Individuals	945,103	300,352
	2,300,491	**1,160,775**

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

	2012	***2011***
Individuals	945,103	300,352
Wholesale and retail trade	828,069	527,001
Manufacturing	185,364	126,245
Real estate	88,997	66,329
Construction	76,805	49,697
Food industry	56,675	15,964
Transport	24,468	20,289
Other	95,010	54,898
	2,300,491	**1,160,775**

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

8. Loans to customers (continued)

Finance lease receivables

The analysis of finance lease receivables at 31 December 2012 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total 2012*
Gross investment in finance leases	11,342	9,003	**20,345**
Unearned future finance income on finance leases	(2,819)	(1,612)	**(4,431)**
Net investment in finance leases	**8,523**	**7,391**	**15,914**

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

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total 2011*
Gross investment in finance leases	3,033	2,004	**5,037**
Unearned future finance income on finance leases	(1,118)	(484)	**(1,602)**
Net investment in finance leases	**1,915**	**1,520**	**3,435**

9. Investment securities available-for-sale

Available-for-sale securities comprise:

	2012	*2011*
Bonds issued by Belarusian banks	91,012	131,784
Bonds issued by republican governmental bodies	1,492	-
Investments in equity instruments	244	-
Available-for-sale securities	**92,748**	**131,784**

The Bank recognized an impairment loss of BYR 5,740 million on available-for-sale securities for the year ended 31 December 2012. In the income statement, the amount of impairment is included in net gains/(losses) from investment securities available-for-sale.

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

10. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Assets under construction*	*Total*
Cost						
31 December 2011	21,028	28,018	3,927	21,964	771	**75,708**
Additions	1,848	10,365	228	8,115	1,788	**22,344**
Disposals	(24)	(1,244)	-	(242)	-	**(1,510)**
31 December 2012	**22,852**	**37,139**	**4,155**	**29,837**	**2,559**	**96,542**
Accumulated depreciation						
31 December 2011	(2,941)	(13,582)	(1,940)	(7,164)	-	**(25,627)**
Depreciation charge	(751)	(4,491)	(393)	(2,440)	-	**(8,075)**
Disposals	17	1,237	-	206	-	**1,460**
31 December 2012	**(3,675)**	**(16,836)**	**(2,333)**	**(9,398)**	**-**	**(32,242)**
Net book value:						
31 December 2011	**18,087**	**14,436**	**1,987**	**14,800**	**771**	**50,081**
31 December 2012	**19,177**	**20,303**	**1,822**	**20,439**	**2,559**	**64,300**

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Assets under construction*	*Total*
Cost						
31 December 2010	19,866	16,045	2,884	12,556	945	**52,296**
Additions	1,891	11,974	1,178	8,803	749	**24,595**
Transfers	-	-	-	923	(923)	**-**
Disposals	(729)	(1)	(135)	(318)	-	**(1,183)**
31 December 2011	**21,028**	**28,018**	**3,927**	**21,964**	**771**	**75,708**
Accumulated depreciation						
31 December 2010	(2,591)	(11,319)	(1,818)	(5,906)	-	**(21,634)**
Depreciation charge	(626)	(2,264)	(257)	(1,489)	-	**(4,636)**
Disposals	276	1	135	231	-	**643**
31 December 2011	**(2,941)**	**(13,582)**	**(1,940)**	**(7,164)**	**-**	**(25,627)**
Net book value:						
31 December 2010	**17,275**	**4,726**	**1,066**	**6,650**	**945**	**30,662**
31 December 2011	**18,087**	**14,436**	**1,987**	**14,800**	**771**	**50,081**

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11. Intangible assets

The movements in intangible assets were as follows:

	2012	*2011*
Cost		
1 January	**21,462**	**10,999**
Additions	11,437	10,582
Disposals	(134)	(119)
31 December	**32,765**	**21,462**
Accumulated amortisation		
1 January	**(7,064)**	**(3,621)**
Amortisation charge	(6,927)	(3,562)
Disposals	103	119
31 December	**(13,888)**	**(7,064)**
Net book value:		
1 January	**14,398**	**7,378**
31 December	**18,877**	**14,398**

12. Taxation

The corporate income tax expense comprises:

	2012	*2011*
Current tax charge	16,743	28,034
Deferred tax charge/(credit) – origination and reversal of temporary differences	(648)	3,449
Income tax expense	**16,095**	**31,483**

Belarusian legal entities must file individual tax declarations. The tax rate for banks on profits other than on state securities was 18% for 2012 and was introduced on 1 January 2012 (2011 - 24%). The Bank calculates deferred tax assets and liabilities as of 31 December 2012 and 2011 using an 18% tax rate.

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

	2012	*2011*
Profit before tax	**64,802**	**52,620**
Statutory tax rate	18%	24%
Theoretical income tax expense at the statutory rate	11,664	12,629
Investment tax credits	-	(6,486)
Securities tax credits	(7,698)	(8,652)
Non-deductible expenditures:		-
- salaries and bonuses	1,605	3,016
- other	1,194	1,631
Tax effect of change in tax rate	-	(15)
Income/expenses recognised for tax purposes only	(30)	(9)
Additional deductible expenses for tax purposes	-	(1,685)
Reversal of property revaluation for tax purposes	(1,247)	(4,075)
Tax exempt income	-	(33)
Effect of loss on net monetary position	10,607	35,162
Income tax expense	**16,095**	**31,483**

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12. Taxation (continued)

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

	2010	*Origination and reversal of temporary differences in the income statement*	*Gain/ (loss) on tax base due to inflation*	*2011*	*Origination and reversal of temporary differences in the income statement*	*Gain/ (loss) on tax base due to inflation*	*2012*
Tax effect of deductible temporary differences:							
Loans to customers	**7,541**	6,109	(3,927)	**9,723**	(4,084)	(1,740)	**3,899**
Property and equipment	**617**	(296)	(321)	**-**	-	-	**-**
Other assets	**552**	1,729	(287)	**1,994**	1,479	(357)	**3,116**
Other borrowed funds	**-**	741	-	**741**	(9)	(133)	**599**
Other liabilities	**1,403**	(179)	(731)	**493**	(403)	(88)	**2**
Gross deferred tax asset	**10,113**	**8,104**	**(5,266)**	**12,951**	**(3,017)**	**(2,318)**	**7,616**
Tax effect of taxable temporary differences:							
Cash and cash equivalents	**(92)**	(451)	48	**(495)**	355	89	**(51)**
Amounts due from credit institutions	**(419)**	(1,043)	218	**(1,244)**	744	223	**(277)**
Derivative financial assets	**(438)**	(368)	228	**(578)**	445	103	**(30)**
Investment securities available-for-sale	**(509)**	(37)	265	**(281)**	54	50	**(177)**
Property and equipment	**-**	(65)	-	**(65)**	(413)	12	**(466)**
Intangible assets	**(118)**	(2,490)	61	**(2,547)**	(1,205)	456	**(3,296)**
Amounts due to credit institutions	**-**	(1,012)	-	**(1,012)**	168	181	**(663)**
Derivative financial liabilities	**(719)**	342	374	**(3)**	2	1	**-**
Amounts due to customers	**-**	(5,874)	-	**(5,874)**	4,823	1,051	**-**
Debt securities issued	**(53)**	(112)	28	**(137)**	(101)	25	**(213)**
Other borrowed funds	**(430)**	206	224	**-**	-	-	**-**
Provisions	**(229)**	(649)	118	**(760)**	(1,207)	135	**(1,832)**
Deferred tax liability	**(3,007)**	**(11,553)**	**1,564**	**(12,996)**	**3,665**	**2,326**	**(7,005)**
Deferred tax asset/(liability), net	**7,106**	**(3,449)**	**(3,702)**	**(45)**	**648**	**8**	**611**

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13. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets	*Guarantees and letters of credit*	*Total*
31 December 2010	371	3,781	**4,152**
Monetary effect	(194)	(2,969)	**(3,163)**
Charge/(reversal)	1,268	(983)	**285**
Translation differences	-	3,323	**3,323**
31 December 2011	**1,445**	**3,152**	**4,597**
Monetary effect	(258)	(565)	**(823)**
Reversal	(238)	(1,057)	**(1,295)**
Translation differences	-	283	**283**
31 December 2012	**949**	**1,813**	**2,762**

The allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and letters of credit are recorded in liabilities.

14. Other assets and liabilities

Other assets comprise:

	2012	*2011*
Prepayments and other debtors	12,081	4,661
Amounts receivable on banking operations	8,803	566
Prepaid taxes other than income tax	3,554	57
Accrued commission income	2,823	2,962
Prepaid expenses	1,500	952
Inventory	567	1,116
	29,328	**10,314**
Less – Allowance for impairment of other assets (Note 13)	(949)	(1,445)
Other assets	**28,379**	**8,869**

As of 31 December 2012, other assets include the amount of prepayment for equipment of BYR 6,933 million (2011 – BYR 269 million).

Other liabilities comprise:

	2012	*2011*
Payables to personnel	7,793	4,941
Amounts due to Deposit Insurance Agency	3,247	1,630
Trade payables	2,173	1,142
Amounts payable on banking operations	1,871	2,630
Taxes payable, other than income tax	1,661	1,655
Accrued commission expense	1,759	143
Deferred income	297	249
Other	713	409
Other liabilities	**19,514**	**12,799**

15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	*2011*
Time deposits and loans of local banks	102,415	6,376
Time deposits and loans of foreign banks	39,896	10,287
Current customer accounts	11,867	2,531
Amounts due to credit institutions	**154,178**	**19,194**

As of 31 December 2012, BYR 47,937 million (31%) were due to one bank (2011 - BYR 6,264 million (33%)).

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16. Amounts due to customers

Amounts due to customers comprise:

	2012	*2011*
Time deposits	1,508,147	780,615
Current accounts	876,680	595,799
Amounts due to customers	**2,384,827**	**1,376,414**
Cash held as security against letters of credit	**18,853**	**13,226**

Included in amounts due to customers are deposits held by the Bank as security against irrevocable letters of credit. The Bank is obliged to repay the deposits upon expiry of the respective letters of credit.

At 31 December 2012, amounts due to customers of BYR 327,169 million (14%) were due to the ten largest customers (2011 - BYR 205,659 million (15%)).

Included in time deposits are deposits of individuals of BYR 862,501 million (2011 – BYR 524,341 million). In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within 5 days upon demand of a depositor. In the event that a time deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

	2012	*2011*
Private companies	1,120,653	714,117
Individuals	1,206,222	644,732
State organisations	57,952	17,565
Amounts due to customers	**2,384,827**	**1,376,414**

An analysis of customer accounts by economic sector is as follows:

	2012	*2011*
Individuals	1,206,222	644,732
Trade	454,611	354,138
Manufacturing	207,683	90,720
Construction	148,247	50,325
Insurance	99,098	55,994
Transport	77,447	26,691
Real estate	52,865	45,810
Software development and information technologies	28,047	25,920
Individual entrepreneurs	18,906	13,298
Telecommunications	6,756	8,511
Government bodies	6,006	3,843
Financial services	2,814	2,888
Non-for-profit organizations	3,050	811
Other	73,075	52,733
Amounts due to customers	**2,384,827**	**1,376,414**

17. Debt securities issued

Debt securities issued consisted of the following:

	2012	*Maturity*	*Effective interest rate*	*2011*	*Maturity*	*Effective interest rate*
Interest-bearing bonds in BYR	53,818	2013	27%-35%	20,282	2012	52%
Interest-bearing bonds in USD	42,949	2013	7%	-		
Discount bonds in BYR	-			22,556	2012	17%-52%
Debt securities issued	**96,767**			**42,838**		

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18. Other borrowed funds

Other borrowed funds consisted of the following:

	2012	*2011*
International Finance Corporation (Note 26)	85,345	29,311
European Bank for Reconstruction and Development	62,965	139,227
FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden (Note 26)	55,497	91,655
MTB Investments Holdings Limited	5,159	69,009
Other borrowed funds	**208,966**	**329,202**

19. Subordinated debt

As of 31 December 2012 and 31 December 2011, subordinated debt consists of 2 loans attracted from MTB Investments Holdings Limited (the Bank's parent) in the total amount of USD 9,375 thousand:

	Initial date	*Maturity*	*2012*	*2011*
Subordinated loan 1	8 April 2010	8 April 2020	39,422	46,783
Subordinated loan 2	29 April 2010	29 April 2020	40,922	48,563
Subordinated debt			**80,344**	**95,346**

Subordinated loans bear a 6% annual nominal interest rate.

20. Equity

As of 31 December 2012 and 31 December 2011, the authorized, issued and fully paid share capital of the Bank comprised 141,448 ordinary shares with a nominal value of BYR 861,500 each. All shares have the same nominal value and carry one vote.

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

	Number of ordinary shares	*Nominal amount of ordinary shares*	*Inflation adjustment*	*Total*
31 December 2010	**75,585**	**65,116**	**286,195**	**351,311**
Issue of share capital	65,863	56,741	13,160	**69,901**
31 December 2011	**141,448**	**121,857**	**299,355**	**421,212**
Issue of share capital	-	-	-	**-**
31 December 2012	**141,448**	**121,857**	**299,355**	**421,212**

At the Shareholders' Meeting in March 2011, the Bank declared dividends in respect of the year ended 31 December 2010, totalling BYR 3,468 million on ordinary shares (BYR 45,878 per share). At the Shareholders' Meeting in September 2011, the Bank declared interim dividends in respect of the year ended 31 December 2011, totalling BYR 96,605 million on ordinary shares (BYR 1,278,104 per share).

In December 2011, shareholders of the Bank approved an issue of 65,863 ordinary shares. The consideration received for these shares was comprised of cash for the total amount of BYR 69,901 million. This share issue was registered by the National Bank on 30 December 2011.

In 2011, the Bank repaid early one of the subordinated loans previously received from the parent, which was adjusted on initial recognition so as to be recognised at fair value. Cash from the repayment was used to purchase the shares of the new issue. Loss from the early repayment of the loan amounted to BYR 7,824 million and was recorded directly in equity.

In accordance with Belarusian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with BAS. The Bank had BYR 69,986 million of undistributed and unreserved earnings as at 31 December 2012 (2011: BYR 34,771 million).

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20. Equity (continued)

Nature and purpose of other reserves

Unrealized gains (losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

21. 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 upon the progress of reforms and the effectiveness of economic, financial and monetary measures undertaken by the Government.

In 2011, there was a significant deterioration in the macroeconomic environment in Belarus. The deterioration was primarily due to the high current account deficit, decrease in, and restriction on, external financing sources, and significant shortage of foreign currency inflow at the beginning of 2011. These factors resulted in a significant decrease in the gold and foreign currency reserves of the National Bank in the first quarter of 2011, which was followed by foreign currency shortages and a significant decrease in the official exchange rate accompanied by the growth of inflation and an increase in the prime refinancing rate up to 45% as at 31 December 2011. The rate of inflation in 2011 was 108.7% (Note 2).

The significant financial support provided by Russia (extension of loans in 2011 and 2012 and participation in privatization of state assets at the end of 2011) and a positive foreign trade balance contributed to a significant increase in reserves of the National Bank and stabilization of the macroeconomic situation in the country in 2012. According to the Government and the National Bank, the reserves as of 31 December 2012 are sufficient and stable enough to avoid foreign currency shortages and to satisfy the external financing needs of the country in the short and medium term. The official exchange rate in 2012 remained virtually unchanged. The inflation rate in 2012 was 21.8%, the prime refinancing rate was reduced to 30% as of 31 December 2012.

While management of the Bank believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the results and financial position of the Bank and its borrowers. The degree of such impact on the Bank's financial statements is 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.

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21. Commitments and contingencies (continued)

Taxation

Belarusian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period.

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 comprised the following:

	2012	*2011*
Credit related commitments		
Undrawn loan commitments	640,364	396,475
Guarantees	122,793	146,147
Letters of credit	18,853	48,569
	782,010	591,191
Less - Provisions (Note 13)	(1,813)	(3,152)
Commitments and contingencies (before deducting collateral)	**780,197**	**588,039**
Less – Cash held as security against letters of credit (Note 16)	(18,853)	(13,226)
Commitments and contingencies	**761,344**	**574,813**

The Bank had no significant commitments under non-cancellable contracts for operating leases as of 31 December 2012 and 2011.

The Bank had no significant capital expenditure commitments as of 31 December 2012 and 2011.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in the Republic of Belarus at present.

22. Net gains/(losses) from foreign currencies

	2012	*2011*
Dealing	42,593	58,304
Gains/(losses) from derivative financial instruments	(4,071)	182,376
Translation differences	(882)	(177,221)
Net gains/(losses) from foreign currencies	**37,640**	**63,459**

In 2012, the Bank's realised gains from derivative financial instruments amounted to BYR 67,032 million (2011: BYR 80,992 million); the amount of unrealised losses recognized in the income statement amounted to BYR 71,103 million (2011: BYR 101,384 million of gain).

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23. Net fee and commission income

	2012	*2011*
Settlements and cash transactions	56,041	38,032
Commissions on transactions with plastic cards	42,782	22,381
Foreign exchange transactions	34,743	33,415
Documentary operations	7,786	9,715
Securities	1,567	2,027
Other	2,554	1,532
Fee and commission income	**145,473**	**107,102**
Commissions on transactions with plastic cards	(11,287)	(5,749)
Transactions with banks	(7,132)	(5,599)
Documentary operations	(1,697)	(1,173)
Foreign exchange transactions	(1,475)	(20,182)
Securities	(707)	(760)
Other	(384)	(108)
Fee and commission expense	**(22,682)**	**(33,571)**
Net fee and commission income	**122,791**	**73,531**

24. Other income

	2012	*2011*
Revenue from debts previously written off	6,633	8,440
Fines and penalties received	1,932	805
Other	731	553
Total other income	**9,296**	**9,798**

25. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2012	*2011*
Salaries and bonuses	(84,259)	(68,245)
Social security costs	(23,063)	(17,467)
Other personnel expenses	(1,549)	(632)
Remuneration to a member of the Supervisory Board	(1,853)	-
Personnel expenses	**(110,724)**	**(86,344)**
Rent payments	(25,658)	(18,318)
Marketing and advertising	(16,485)	(11,901)
Expenses on maintenance of banking software	(11,457)	(9,371)
Payments to the Deposit Insurance Fund	(8,766)	(5,275)
Stationery and other office expenses	(6,263)	(3,537)
Property and equipment maintenance	(5,064)	(2,871)
Postal and courier services	(3,346)	(1,417)
Utilities	(2,736)	(2,086)
Taxes, other than income tax	(2,531)	(881)
Security expenses	(2,365)	(1,737)
Communications	(2,002)	(1,302)
Professional services	(1,980)	(2,855)
Insurance	(1,681)	(1,401)
Maintenance of vehicles and fuel expenses	(1,634)	(1,040)
Entertainment expenses	(1,615)	(2,532)
Charity and sponsorship expenses	(369)	(39)
Net loss from sale of property, equipment and intangible assets	(67)	(66)
Other expenses	(8,864)	(6,179)
Other operating expenses	**(102,883)**	**(72,808)**

26. 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, liquidity risk and market 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 risk management system has a three level organisational structure, which includes collegial level, analytical divisions, and business-divisions.

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board

The Management Board is responsible for annual budget planning, review and revision of the Bank's strategy, and considering main risks. The Management Board has the responsibility to monitor the overall risk process within the Bank, and to develop risk management structure.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Credit Committee

The Credit Committee is responsible for making decisions relating to those active transactions of the Bank, which are subject to credit risk, except for those under the authority of structural divisions. The Credit Committee decides on the possibility and on the basic terms of the transactions specified above.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The Risk Management Unit participates in development of the overall risk strategy, carries out risk assessment of major banking transactions, monitors risks, and informs management of changes in major business areas.

Budgeting, Management Reporting and Control Department ("BCD")

BCD is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

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26. Risk management (continued)

Introduction (continued)

Internal audit

Risk management processes throughout the Bank are audited by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Other organizational units

Organisational units of the Bank should comply with planned indicators and established limits, make operating decisions, and organise internal control and monitoring.

Risk measurement and reporting systems

The Bank exercises a systematic approach to risk management, having established the unified standards for identification, evaluation and mitigation of risks based on recommendations of the National Bank of the Republic of Belarus and Basel Committee on Banking Supervision. In accordance with the above mentioned standards, the Bank has developed and duly implemented risk management procedures for the main types of risks inherent in the Bank's operations.

The system of risk identification includes procedures, which allow to:

- Identify risks for new operations;
- Identify risks for typical operations;
- Identify significant changes in the level and character of risks accompanying the Bank's activities.

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities;
- Reservation – creation of special provisions for expected losses;
- Diversification – dispersion of risk among various industries, risk objects and financial instruments to reduce the overall level of risk;
- Collateralisation – acceptance of average and above risks only if there is a legal right to recover expected losses by realization of respective collateral.

For the Bank's Management Board, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of established limits and liquidity, plus any other risk developments.

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26. Risk management (continued)

Introduction (continued)

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks (see below 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.

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.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

In 2012, the Bank continued to follow a prudent and balanced credit policy in line with the following strategic priorities: maintaining a sufficiently high level of liquid assets and focusing on the provision of loans to individuals and small businesses.

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.

The credit risk management process includes the following: analyzing the borrower's financial soundness based on review of its financial statements, information available in mass media, credit history, quality and value of the loan collateral; monitoring credit risk by borrower, debt service, availability and integrity of the collateral; estimating and making adequate provisions for potential losses.

Results of credit worthiness analysis are regularly reviewed by the Credit Committee in the process of decision taking on the possibility of loan granting.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

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26. Risk management (continued)

Credit risk (continued)

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 guarantee given. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies. The probability of credit losses on credit-related commitments is considered to be lower as compared with that on financial instruments recognized in the statement of financial position, since the Bank may terminate its undrawn loan commitments.

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.

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 8.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank according to the classification of financial assets established by instructions of the National Bank. This credit rating system is based on 5 groups of credit risk. The criteria for assigning financial assets into particular risk groups include financial performance, debt service and the value and sufficiency of collateral.

The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

In the table below loans to banks and customers of standard grade (the first risk group according to regulations of the National Bank) are those having a minimal level of credit risk and are well collateralised. Other borrowers with less good financial position and less good debt service, but not individually impaired, are included in the sub-standard grade.

		Neither past due nor individually impaired		*Past due but not individually impaired*		
		Standard grade 2012	***Sub-standard grade 2012***	***2012***	***Individually impaired 2012***	***Total 2012***
Amounts due from credit institutions (excluding obligatory reserves)	6	295	-	-	-	**295**
Loans to customers	8					
Loans to legal entities		674,804	125,348	6,411	548,825	**1,355,388**
Loans to individuals		870,446	5,395	48,743	20,519	**945,103**
		1,545,250	**130,743**	**55,154**	**569,344**	**2,300,491**
Investment securities available-for-sale	9	92,504	-	-	5,740	**98,244**
Total		**1,638,049**	**130,743**	**55,154**	**575,084**	**2,399,030**

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26. Risk management (continued)

Credit risk (continued)

	Notes	*Neither past due nor individually impaired*		*Past due but not individually impaired 2011*	*Individually impaired 2011*	*Total 2011*
		Standard grade 2011	*Sub-standard grade 2011*			
Amounts due from credit institutions (excluding obligatory reserves)	6	35,341	-	-	-	**35,341**
Loans to customers	8					
Loans to legal entities		486,952	18,629	5,121	349,721	**860,423**
Loans to individuals		271,532	1,705	11,791	15,324	**300,352**
		758,484	**20,334**	**16,912**	**365,045**	**1,160,775**
Investment securities available-for-sale	9	131,784	-	-	-	**131,784**
Total		**925,609**	**20,334**	**16,912**	**365,045**	**1,327,900**

An analysis of past due but not individually impaired loans by age is provided below.

It is the Bank's policy to maintain accurate and consistent risk ratings according to the National Bank's classification across the loan portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. The attributable risk ratings are assessed and updated regularly.

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

	Less than 30 days 2012	*31 to 60 days 2012*	*61 to 90 days 2012*	*More than 90 days 2012*	*Total 2012*
Loans to customers					
Loans to legal entities	4,788	47	242	1,334	**6,411**
Loans to individuals	19,720	9,660	7,635	11,728	**48,743**
Total	**24,508**	**9,707**	**7,877**	**13,062**	**55,154**

	Less than 30 days 2011	*31 to 60 days 2011*	*61 to 90 days 2011*	*More than 90 days 2011*	*Total 2011*
Loans to customers					
Loans to legal entities	533	334	186	4,068	**5,121**
Loans to individuals	6,822	1,749	1,705	1,515	**11,791**
Total	**7,355**	**2,083**	**1,891**	**5,583**	**16,912**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

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

26. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days 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 while determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. 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 loans to individuals) 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.

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 and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. 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 is made in a similar manner as for loans.

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26. Risk management (continued)

Credit risk (continued)

The geographical concentration of the Bank's financial assets and liabilities is set out below:

	2012				*2011*			
	Belarus	*OECD*	*CIS and other countries*	*Total*	*Belarus*	*OECD*	*CIS and other countries*	*Total*
Assets:								
Cash and cash equivalents	782,359	23,350	28,745	**834,454**	570,619	100,355	29,069	**700,043**
Amounts due from credit institutions	17,737	295	-	**18,032**	9,092	35,341	-	**44,433**
Derivative financial assets	26,420	-	-	**26,420**	97,464	-	-	**97,464**
Loans to customers	2,187,578	-	354	**2,187,932**	1,105,300	-	-	**1,105,300**
Investment securities available-for-sale	92,504	244	-	**92,748**	131,784	-	-	**131,784**
Other financial assets	13,230	-	-	**13,230**	3,878	-	-	**3,878**
	3,119,828	**23,889**	**29,099**	**3,172,816**	**1,918,137**	**135,696**	**29,069**	**2,082,902**
Liabilities:								
Amounts due to credit institutions	108,267	12,567	33,344	**154,178**	6,533	2,509	10,152	**19,194**
Derivative financial liabilities	-	-	59	**59**	-	-	-	**-**
Amounts due to customers	2,345,782	24,528	14,517	**2,384,827**	1,344,847	11,770	19,797	**1,376,414**
Debt securities issued	96,767	-	-	**96,767**	42,838	-	-	**42,838**
Other borrowed funds	-	203,807	5,159	**208,966**	-	260,193	69,009	**329,202**
Provisions	1,813	-	-	**1,813**	3,152	-	-	**3,152**
Other financial liabilities	6,516	-	-	**6,516**	2,502	-	1,825	**4,327**
Subordinated debt	-	,-	80,344	**80,344**	-	,-	95,346	**95,346**
	2,559,145	**240,902**	**133,423**	**2,933,470**	**1,399,872**	**274,472**	**196,129**	**1,870,473**
Net assets/ (liabilities)	**560,683**	**(217,013)**	**(104,324)**	**239,346**	**518,265**	**(138,776)**	**(167,060)**	**212,429**

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26. Risk management (continued)

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. It also manages assets, taking into account the maturities and amounts of assets and liabilities, by monitoring the future repayments associated with the Bank's assets and liabilities on a daily basis.

The Bank's liquidity management strategy provides for classifying liquid assets into those of first or second priority. Such classification of liquid assets results from understanding that the Bank might be forced to work in extreme conditions in the event of a shocking impact of one or more risk factors. The liquid assets of second priority are income-generating investments which, if necessary, can be quickly transformed into cash to provide additional liquidity. Effectively, they represent a liquidity cushion.

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 access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the National Bank, the amount of which depends on the level of customer funds attracted.

The Bank's liquidity position is also assessed in terms of the liquidity ratios established by the National Bank of the Republic of Belarus. As at 31 December, these ratios were as follows:

	Ratio	***2012***	***2011***
"Instant Liquidity Ratio" (assets receivable or realizable within one day/liabilities repayable on demand and overdue	Min 20%	182%	232%
"Current Liquidity Ratio" (assets receivable or realisable within 30 days /liabilities repayable within 30 days)	Min 70%	120%	144%
"Short-Term Liquidity Ratio" (assets receivable or realisable within one year/liabilities repayable within one year)	Min 1	1.5	2.8

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26. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December based on contractual undiscounted repayment obligations, except for 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.

Financial liabilities **As at 31 December 2012**	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	136,889	17,580	-	-	**154,469**
Gross settled derivative financial instruments					
- Contractual amounts payable	62,437	17,240	-	-	**79,677**
- Contractual amounts receivable	(62,512)	(43,060)	-	-	**(105,572)**
Amounts due to customers	1,608,606	681,852	440,277	2,282	**2,733,017**
Debt securities issued	102,430	-	-	-	**102,430**
Other borrowed funds	168,038	18,764	25,833	-	**212,635**
Other liabilities	6,516	-	-	-	**6,516**
Subordinated debt	1,205	3,615	19,283	91,936	**116,039**
Total undiscounted financial liabilities	**2,023,609**	**695,991**	**485,393**	**94,218**	**3,299,211**

Financial liabilities **As at 31 December 2011**	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	16,867	2,538	-	-	**19,405**
Gross settled derivative financial instruments					
- Contractual amounts payable	19,739	41,218	20,999	-	**81,956**
- Contractual amounts receivable	(20,348)	(102,049)	(51,100)	-	**(173,497)**
Amounts due to customers	991,223	246,577	266,958	520	**1,505,278**
Debt securities issued	27,239	17,086	-	-	**44,325**
Other borrowed funds	162,845	101,214	77,568	-	**341,627**
Other liabilities	4,327	-	-	-	**4,327**
Subordinated debt	1,442	4,311	22,898	114,213	**142,864**
Total undiscounted financial liabilities	**1,203,334**	**310,895**	**337,323**	**114,733**	**1,966,285**

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.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2012	780,197	-	-	-	**780,197**
2011	588,039	-	-	-	**588,039**

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26. Risk management (continued)

Liquidity risk and funding management (continued)

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

The Bank's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The Bank has received significant funds from FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden and International Finance Corporation (refer to Note 18). As of 31 December 2012, the Bank was not in compliance with its financial covenant setting the maximum exposure to credit risk for one group of related borrowers (the actual value was 22%, with the prescribed value being 20% for FMO and 15% for IFC) under the agreements with FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden and International Finance Corporation. The failure to meet this covenant is an event of default and may result, upon notice by the lenders, in a demand for the immediate repayment of these amounts. Thus, the amount of BYR 141,341 million is included in other borrowed funds as an amount payable on demand (in "less than 3 months" in the table above and in "within one year" in Note 28). As of the date of these financial statements, the Bank received the respective waivers according to which it may not meet the financial covenants and this will not entail the early withdrawal of funds by International Finance Corporation and FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden. Therefore, the early withdrawal of these funds is not expected.

The amount of BYR 100,421 million as of 31 December 2011 is presented as an amount payable on demand (in "less than 3 months" in the table above and in "within one year" in Note 28) for the same reasons, i. e. in connection with the failure to meet the financial covenants under the agreements with FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden and International Finance Corporation.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables.

Included in amounts due to customers are time deposits of individuals. In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within five days upon demand of a depositor (refer to Note 16).

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 exchange rates and equity prices. The Bank's positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

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 reasonably possible change in interest rates, with all other variables held constant, of the Bank's income statement.

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26. Risk management (continued)

Market risk (continued)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held as 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.

Currency	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity 2012*
BYR	500	46,000	(172)
EUR	100	11	-
USD	100	(2,042)	(1,189)

Currency	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity 2012*
BYR	(1000)	(92,001)	354
EUR	(100)	(11)	-
USD	(100)	2,042	1,231

Currency	*Increase in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of equity 2011*
BYR	500	11,530	3,451
EUR	100	(26)	(4)
USD	100	(2,602)	(1,508)

Currency	*Decrease in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of equity 2011*
BYR	(1000)	(23,059)	(5,739)
EUR	(100)	26	319
USD	(100)	2,602	(356)

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26. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.. The Management Board has set limits on positions by currency based on the regulations of the National Bank of the Republic of Belarus. Positions are monitored on a daily basis.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	BYR	*USD*	*EUR*	*RUR*	*Other currencies*	*Total*
Financial assets as at 31 December 2012						
Cash and cash equivalents	526,836	151,473	97,163	54,243	4,739	**834,454**
Amounts due from credit institutions	17,737	-	295	-	-	**18,032**
Loans to customers	1,084,777	756,347	263,958	82,850	-	**2,187,932**
Investment securities available-for-sale	29,937	62,811	-	-	-	**92,748**
Other financial assets	9,470	1,960	744	1,056	-	**13,230**
Total financial assets	**1,668,757**	**972,591**	**362,160**	**138,149**	**4,739**	**3,146,396**
Financial liabilities as at 31 December 2012						
Amounts due to credit institutions	(26,203)	(62,127)	(46,942)	(18,906)	-	**(154,178)**
Amounts due to customers	(1,397,422)	(616,617)	(297,118)	(69,690)	(3,980)	**(2,384,827)**
Debt securities issued	(53,818)	(42,949)	-	-	-	**(96,767)**
Other borrowed funds	-	(208,966)	-	-	-	**(208,966)**
Other financial liabilities	(5,284)	(1,132)	(92)	(8)	-	**(6,516)**
Subordinated debt	-	(80,344)	-	-	-	**(80,344)**
Total financial liabilities	**(1,482,727)**	**(1,012,135)**	**(344,152)**	**(88,604)**	**(3,980)**	**(2,931,598)**
Claims on derivative financial instruments	-	97,385	6,237	-	1,950	**105,572**
Obligations on derivative financial instruments	(19,454)	(4,211)	(22,693)	(33,319)	-	**(79,677)**
Total currency position as at 31 December 2012	**166,576**	**53,630**	**1,552**	**16,226**	**2,709**	**240,693**

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26. Risk management (continued)

Currency risk (continued)

	BYR	*USD*	*EUR*	*RUR*	*Other currencies*	*Total*
Financial assets as at 31 December 2011						
Cash and cash equivalents	419,655	184,874	45,424	45,937	4,153	**700,043**
Amounts due from credit institutions	9,092	35,341	-	-	-	**44,433**
Loans to customers	428,677	434,022	205,026	37,575	-	**1,105,300**
Investment securities available-for-sale	18,508	84,188	29,088	-	-	**131,784**
Other financial assets	2,867	686	124	201	-	**3,878**
Total financial assets	**878,799**	**739,111**	**279,662**	**83,713**	**4,153**	**1,985,438**
Financial liabilities as at 31 December 2011						
Amounts due to credit institutions	(9,048)	(7)	(2,509)	(7,630)	-	**(19,194)**
Amounts due to customers	(610,908)	(475,915)	(217,624)	(69,532)	(2,435)	**(1,376,414)**
Debt securities issued	(42,838)	-	-	-	-	**(42,838)**
Other borrowed funds	-	(329,202)	-	-	-	**(329,202)**
Other financial liabilities	(2,550)	(1,736)	(41)	-	-	**(4,327)**
Subordinated debt	-	(95,346)	-	-	-	**(95,346)**
Total financial liabilities	**(665,344)**	**(902,206)**	**(220,174)**	**(77,162)**	**(2,435)**	**(1,867,321)**
Claims on derivative financial instruments	-	173,497	-	-	-	**173,497**
Obligations on derivative financial instruments	(62,217)	-	(19,739)	-	-	**(81,956)**
Total currency position as at 31 December 2011	**151,238**	**10,402**	**39,749**	**6,551**	**1,718**	**209,658**

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

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26. Risk management (continued)

Currency risk (continued)

Currency	*Reasonable high possible change in currency rate 2012*	*Effect on profit before tax 2012*	*Reasonable high possible change in currency rate 2011*	*Effect on profit before tax 2011*
USD	+15%	8,045	+40%	4,161
EUR	+15%	233	+40%	15,900
RUR	+15%	2,434	+40%	2,620

Currency	*Reasonable low possible change in currency rate 2012*	*Effect on profit before tax 2012*	*Reasonable low possible change in currency rate 2011*	*Effect on profit before tax 2011*
USD	-2%	(1,073)	-10%	(1,040)
EUR	-2%	(31)	-10%	(3,975)
RUR	-2%	(325)	-10%	(655)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

The Bank assesses prepayment risk to be insignificant as of 31 December 2012 and 2011 and does not project significant fall in interest rates in the following 12 months.

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 a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

27. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by 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.

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27. Fair values of financial instruments (continued)

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

At 31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial instruments	-	26,420	-	**26,420**
Investment securities available-for-sale	-	92,748	-	**92,748**
	-	**119,168**	**-**	**119,168**
Financial liabilities				
Derivative financial instruments		59	-	**59**
	-	**59**	**-**	**59**

At 31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial instruments	-	-	97,464	**97,464**
Investment securities available-for-sale	-	131,784	-	**131,784**
	-	**131,784**	**97,464**	**229,248**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps. 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 forward and spot rates, as well as interest rate curves.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or model primarily consist of 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 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.

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27. Fair values of financial instruments (continued)

Movements in level 3 financial instruments measured at fair value

The following table shows 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 loss recorded in profit or loss***	***Settlements***	***Transfers to level 2***	***At 31 December 2012***
Financial instruments					
Derivative financial instruments	97,464	(4,071)	(67,032)	26,361	-
Total level 3 financial instruments	**97,464**	**(4,071)**	**(67,032)**	**26,361**	**-**

	At 1 January 2011	***Total gain recorded in profit or loss***	***Settlements***	***Transfers from level 2***	***At 31 December 2011***
Financial assets					
Derivative financial instruments	-	182,376	(80,992)	(3,920)	**97,464**
Total level 3 financial assets	**-**	**182,376**	**(80,992)**	**(3,920)**	**97,464**

During the year ended 31 December 2012 the Bank transferred certain financial instruments from level 3 to level 2 of the fair value hierarchy. The carrying amount of the total assets transferred was BYR 26,361 million. The cumulative realised gain at the time of transfer was BYR 4,071 million. The reason for the transfers from level 3 to level 2 is that inputs to the valuation models became observable.

During the year ended 31 December 2011 the Bank transferred certain financial instruments from level 2 to level 3 of the fair value hierarchy. The carrying amount of the total assets transferred was BYR 97,464 million. The cumulative realised gain at the time of transfer was BYR 182,376 million. The reason for the transfers from level 2 to level 3 is that inputs to the valuation models ceased to be observable. Prior to transfer, the fair value of the instruments was determined using observable market transactions or binding broker quotes for the same or similar instruments. Since the transfer, these instruments have been valued using valuation models incorporating significant non market-observable inputs.

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27. Fair values of financial instruments (continued)

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

	2012			2011		
	Realised gains/(losses)	***Unrealised gains/(losses)***	***Total***	***Realised gains/(losses)***	***Unrealised gains/(losses)***	***Total***
Total gains or (losses) included in the profit or loss for the period	67,032	(71,103)	**(4,071)**	80,992	101,384	**182,376**

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 instruments				
Derivative financial instruments	-	**-**	97,464	(2,490)

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 1000 b.p.

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27. Fair values of financial instruments (continued)

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.

	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	834,454	834,454	-	700,043	700,043	-
Amounts due from credit institutions	18,032	18,032	-	44,433	44,433	-
Loans to customers	2,187,932	2,015,094	(172,838)	1,105,300	1,032,366	(72,934)
Other financial assets	13,230	13,230	-	3,878	3,878	-
Financial liabilities						
Amounts due to credit institutions	154,178	154,178	-	19,194	19,194	-
Amounts due to customers	2,384,827	2,387,742	(2,915)	1,376,414	1,346,684	29,730
Debt securities issued	96,767	97,270	(503)	42,838	41,643	1,195
Other borrowed funds	208,966	208,966	-	329,202	329,202	-
Other financial liabilities	6,516	6,516	-	4,327	4,327	-
Subordinated debt	80,344	72,179	8,165	95,346	72,716	22,630
Total unrecognised change in unrealised fair value			**(168,091)**			**(19,379)**

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. This assumption is also applied to demand deposits and savings accounts without a 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.

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28. 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 25 "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	834,454	-	**834,454**	700,043	-	**700,043**
Amounts due from credit institutions	295	17,737	**18,032**	35,341	9,092	**44,433**
Derivative financial assets	26,420	-	**26,420**	64,790	32,674	**97,464**
Loans to customers	1,248,706	939,226	**2,187,932**	706,620	398,680	**1,105,300**
Investment securities available-for-sale	92,748	-	**92,748**	77,377	54,407	**131,784**
Property and equipment	-	64,300	**64,300**	-	50,081	**50,081**
Intangible assets	-	18,877	**18,877**	-	14,398	**14,398**
Current income tax assets	-	-	**-**	2,006	-	**2,006**
Deferred income tax assets	-	611	**611**	-	-	**-**
Other assets	28,379	-	**28,379**	8,869	-	**8,869**
Total	**2,231,002**	**1,040,751**	**3,271,753**	**1,595,046**	**559,332**	**2,154,378**
Amounts due to credit institutions	154,178	-	**154,178**	19,194	-	**19194**
Derivative financial liabilities	59	-	**59**	-	-	**-**
Amounts due to customers	1,503,196	881,631	**2,384,827**	772,739	603,675	**1,376,414**
Debt securities issued	96,767	-	**96,767**	42,838	-	**42,838**
Other borrowed funds	184,787	24,179	**208,966**	255,145	74,057	**329,202**
Current income tax liabilities	231	-	**231**	-	-	**-**
Deferred income tax liabilities	-	-	**-**	-	45	**45**
Provisions	-	1,813	**1,813**	1,621	1,531	**3,152**
Other liabilities	19,514	-	**19,514**	12,799	-	**12,799**
Subordinated debt	-	80,344	**80,344**	-	95,346	**95,346**
Total	**1,958,732**	**987,967**	**2,946,699**	**1,104,336**	**774,654**	**1,878,990**
Net position	**272,270**	**52,784**	**325,054**	**490,710**	**(215,322)**	**275,388**

29. 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.

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29. Related party disclosures (continued)

The Bank enters into banking transactions with related entities including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions.

The outstanding balances of related party transactions are as follows:

	2012				*2011*			
	Parent	*Entities under common control*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control*	*Key management personnel*	*Other related parties*
Loans outstanding at 1 January, gross	132	23,851	1,342	138	333	22,311	1,431	153
Loans issued during the year	182	404,360	1,767	284	216	331,696	2,201	173
Loan repayments during the year	(286)	(391,448)	(1,826)	(298)	(244)	(318,333)	(1,378)	(191)
Other movements	-	54	2,246	248	-	804	(194)	79
Monetary loss	(25)	(3,444)	(2,421)	(248)	(173)	(11,622)	(745)	(80)
Loans outstanding at 31 December, gross	**3**	**33,373**	**1,108**	**124**	**132**	**24,856**	**1,315**	**134**
Less: allowance for impairment at 31 December	-	(811)	(288)	(10)	-	(1,005)	27	4
Loans outstanding at 31 December, net	**3**	**32,562**	**820**	**114**	**132**	**23,851**	**1,342**	**138**
Deposits at 1 January	-	9,013	1,162	570	-	-	2,654	-
Deposits received during the year	-	323,543	2,957	231	-	33,644	1,762	708
Deposits repaid during the year	-	(314,551)	(1,806)	(164)	-	(24,631)	(1,267)	(522)
Other movements	-	35	(202)	(403)	-	-	(605)	384
Monetary gain	-	(1,613)	(208)	(103)	-	-	(1,382)	
Deposits at 31 December	**-**	**16,427**	**1,903**	**131**	**-**	**9,013**	**1,162**	**570**
Current accounts at 31 December	51	17,099	1,492	10	5	25,735	1,817	12
Other borrowed funds at 1 January	69,009	-	-	-	-	-	-	-
- received during the year	5,159	-	-	-	69,009	-	-	-
- repaid during the year	(55,306)							
- monetary gain	(13,698)	-	-	-	-	-	-	-
Other borrowed funds at 31 December	**5,159**	**-**	**-**	**-**	**69,009**	**-**	**-**	**-**
Subordinated debt at 1 January	95,346	-	-	-	116,493	-	-	-
- received during the year	-	-	-	-	-	-	-	-
- initial recognition at fair value	-	-	-	-	-	-	-	-
- interest accrual	5,774	-	-	-	8,943	-	-	-
- repaid during the year	-	-	-	-	(78,404)	-	-	-
- translation differences	1,351	-	-	-	108,996	-	-	-
Monetary gain	(22,127)				(60,682)	-	-	-
Subordinated debt at 31 December	**80,344**	**-**	**-**	**-**	**95,346**	**-**	**-**	**-**
Undrawn loan commitments	143	9,049	917	83	183	22,689	750	17
Guarantees	-	4,483	-	-	-	21,070	-	-
Provisions	-	-	-	-	-	152	-	-
Other liabilities (unused vacation accruals)	-	-	747	4	-	-	481	2

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29. Related party disclosures (continued)

The income and expenses arising from related party transactions are as follows:

	2012				2011			
	Parent	*Entities under common control*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control*	*Key management personnel*	*Other related parties*
Interest income on loans	3	2,874	316	39	13	1,921	187	26
Interest expense on subordinated debt	(5,774)	-	-	-	(8,943)	-	-	-
Interest expense on deposits	-	(1,094)	(1,016)	(14)	-	(89)	(145)	(34)
Interest expense on other borrowed funds	(466)	-	-	-	(870)	-	-	-
Impairment charge for loans	-	194	(261)	(6)	-	(825)	(22)	(3)
Fee and commission income	3	2,841	27	7	-	3,745	12	2
Personnel expenses	-	-	(13,071)	(1,120)	-	-	(8,415)	(354)

Compensation of key management personnel was comprised of the following:

	2012	*2011*
Salaries and other short-term benefits	11,590	7,571
Social security costs	1,481	844
Total key management personnel compensation	**13,071**	**8,415**

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30. Capital adequacy

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

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

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.

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.

National Bank capital adequacy ratio

The National Bank of the Republic of Belarus 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	204,969	209,475
Additional capital	196,720	161,132
Total capital	**401,689**	**370,607**
Risk-weighted assets	**3,008,382**	**1,815,142**
Capital adequacy ratio	13.4%	20.4%

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	307,214	262,984
Tier 2 capital	79,307	93,350
Total equity	**386,521**	**356,334**
Risk-weighted assets	**2,637,713**	**1,569,274**
Tier 1 capital ratio	11.65%	16.76%
Total capital ratio	14.65%	22.71%

31. Events after the reporting period

In February 2013, the shareholders of the Bank decided to pay dividends in the amount of BYR 40,250 million (i.e. BYR 284,556 per share).